



Detroit, Michigan

SINGLE AUDIT

For the Year Ended June 30, 2008



REHMANN ROBSON

Certified Public Accountants



**DETROIT PUBLIC SCHOOLS
SINGLE AUDIT**

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For the Year Ended June 30, 2008

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DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/Pass-through Grantor/ Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Prior Years Expenditures (Memo Only)	Accrued (Deferred) Revenue at June 30, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2008
U.S. Department of Agriculture:								
Direct Programs:								
Food Distribution:								
Entitlement commodities	10.550	\$ 2,236,315	\$ -	\$ -	\$ -	\$ 2,236,315	\$ 2,236,315	-
Bonus commodities		35,214	-	-	-	35,214	35,214	-
Total Food Distribution			-	-	-	2,271,529	2,271,529	-
Passed through the Michigan Department of Education:								
Child Nutrition Cluster:								
National School Breakfast Program:								
Project number 0 71970	10.553	8,286,029	7,434,251	2,401,726	-	3,253,504	851,778	-
Project number 0 81970		6,224,028	-	-	-	5,835,622	6,224,028	388,406
Total National School Breakfast Program			7,434,251	2,401,726	-	9,089,126	7,075,806	388,406
National School Lunch Program:								
Project number 071950	10.555	2,705,851	1,812,911	169,419	-	1,062,359	892,940	-
Project number 071960		20,672,273	18,977,971	6,402,884	-	8,097,186	1,694,302	-
Project number 071980		149,070	144,620	47,674	-	52,124	4,450	-
Project number 81950		1,998,180	-	-	-	1,998,180	1,998,180	-
Project number 81960		15,575,289	-	-	-	14,593,084	15,575,289	982,205
Project number 81980		163,643	-	-	-	161,763	163,643	1,880
Total National School Lunch Program			20,935,502	6,619,977	-	25,964,696	20,328,804	984,085
Total Child Nutrition Cluster			28,369,753	9,021,703	-	35,053,822	27,404,610	1,372,491
Child Care Food Program:								
Project number 061920	10.558	196,041	196,041	2,030	(2,030) *	-	-	-
Project number 062010		15,470	15,470	8,197	(8,197) *	-	-	-
Project number 071920		619,512	595,167	147,060	(23,033) *	148,372	24,345	-
Project number 072010		108,912	107,234	47,461	(40,504) *	8,635	1,678	-
Project number 081920		495,501	-	-	-	417,279	495,501	78,222
Project number 082010		28,091	-	-	-	23,873	28,091	4,218
Total Child Care Food Program			913,912	204,748	(73,764)	598,159	549,615	82,440
Total U.S. Department of Agriculture			29,283,665	9,226,451	(73,764)	37,923,510	30,225,754	1,454,931
U.S. Department of Labor:								
Passed through the City of Detroit:								
Work first Adult 05/06	17.258	509,628	475,695	(6,331)	-	-	6,331	-
Work first Adult 06/07		443,376	328,498	328,498	-	408,490	79,992	-
Total Work first Adult			804,193	322,167	-	408,490	86,323	-

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (continued)
For the Year Ended June 30, 2008

Federal Grantor/Pass-through Grantor/ Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Prior Years Expenditures (Memo Only)	Accrued (Deferred) Revenue at June 30, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2008
U.S. Department of Labor (concluded):								
Passed through the City of Detroit (concluded):								
WIA Breithaupt CTC IN School 05/06	17.259	\$ 287,209	\$ 177,227	\$ 16,646	\$ -	\$ 16,646	\$ -	-
WIA Breithaupt CTC IN School 06/07		229,000	197,310	197,310	-	198,949	1,639	-
Carnegie Cognitive Algebra 05/06		129,000	80,628	2,338	(2,338) *	-	-	-
Carnegie Cognitive Algebra 06/07		62,376	33,982	52,185	(52,185) *	-	-	-
Total WIA Breithaupt and Carnegie Cognitive Algebra			<u>489,147</u>	<u>268,479</u>	<u>(54,523)</u>	<u>215,595</u>	<u>1,639</u>	<u>-</u>
Total U.S. Department of Labor			<u>1,293,340</u>	<u>590,646</u>	<u>(54,523)</u>	<u>624,085</u>	<u>87,962</u>	<u>-</u>
The National Science Foundation - Direct Program:								
Detroit Urban Systemic Initiative - Project number ESR-9908234	47.049	11,500,000	6,027,223	(25,168)	-	-	-	(25,168)
U.S. Department of Education:								
Direct Programs:								
Title VII Indian Education	84.060	41,286	15,668	-	15,668 *	15,668	-	-
Title VII Indian Education		41,085	-	-	-	26,804	27,149	345
Total Title VII Indian Education			<u>15,668</u>	<u>-</u>	<u>15,668</u>	<u>42,472</u>	<u>27,149</u>	<u>345</u>
Carol M. White Physical Fitness - 07/08	84.215	292,096	133,181	154,646	-	220,394	65,748	-
Transition to Teaching Best	84.350	285,500	70,163	(11,503)	-	84,529	104,216	8,184
Linking Kids to Learning	84.364	300,000	-	-	-	30,504	38,257	7,753
Linking Kids to Learning		280,125	272,326	(4,930)	-	-	-	(4,930)
Total Linking Kids to Learning			<u>272,326</u>	<u>(4,930)</u>	<u>-</u>	<u>30,504</u>	<u>38,257</u>	<u>2,823</u>
Total Direct Programs			<u>491,338</u>	<u>138,213</u>	<u>15,668</u>	<u>377,899</u>	<u>235,370</u>	<u>11,352</u>
Passed through the Michigan Department of Education:								
Adult Basic Education:								
Project number 061120 6500395	84.002	16,300	16,285	(15)	15 *	-	-	-
Project number 071120 7500397		17,619	17,619	1,021	(12) *	1,009	-	-
Project number 071130 710337		962,303	962,302	235,183	(24,651) *	210,532	-	-
Project number 081130 810337		1,700,000	-	-	-	1,237,106	1,523,514	286,408
Project number 081120 8500397		22,300	-	-	-	1,098	4,968	3,870
Total Adult Basic Education			<u>996,206</u>	<u>236,189</u>	<u>(24,648)</u>	<u>1,449,745</u>	<u>1,528,482</u>	<u>290,278</u>

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (continued)
For the Year Ended June 30, 2008

Federal Grantor/Pass-through Grantor/ Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Prior Years Expenditures (Memo Only)	Accrued (Deferred) Revenue at June 30, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2008
U.S. Department of Education (continued):								
Passed through the Michigan Department of Education (continued):								
Title I Part A:	84.010							
06/07 - Project number 071530 0607		\$ 129,445,134	\$ 115,868,699	\$ 55,206,271	\$ -	\$ 63,450,260	\$ 8,243,989	-
06/07 - Project number 061530 0607		39,995,426	39,995,426	15,152,147	-	15,152,147	-	-
07/08 - Project number 081550 0708		1,975,000	-	-	-	28,751	97,087	68,336
07/08 - Project number 081530 0708		139,104,295	-	-	-	62,175,933	92,104,841	29,928,908
2% School Improvement - Project number 071550 0607		1,985,000	<u>183,993</u>	<u>83,873</u>	-	<u>700,062</u>	<u>588,865</u>	<u>(27,324)</u>
Total Title I Part A			<u>156,048,118</u>	<u>70,442,291</u>	-	<u>141,507,153</u>	<u>101,034,782</u>	<u>29,969,920</u>
Migrant Education:	84.011							
Project number 071890 0607		237,923	174,324	174,324	-	237,785	63,461	-
Project number 081890 0708		298,133	-	-	-	164,608	194,941	30,333
Project number 061830 2007 (Summer)		69,800	36,217	36,217	-	69,800	33,583	-
Project number 081830 2008 (Summer)		79,970	-	-	-	-	24,971	24,971
Total Migrant Education			<u>210,541</u>	<u>210,541</u>	-	<u>472,193</u>	<u>316,956</u>	<u>55,304</u>
Title I Part D:	84.013							
06-07 - Project number 071700 0607		197,573	67,835	7,366	-	20,891	13,525	-
06-07 - Project number 081700 0708		348,423	-	-	-	<u>114,236</u>	<u>131,784</u>	<u>17,548</u>
Total Title I Part D			<u>67,835</u>	<u>7,366</u>	-	<u>135,127</u>	<u>145,309</u>	<u>17,548</u>
Special Education Cluster:								
Individuals with Disabilities Education Act:	84.027							
Education of the Handicapped 03/04		22,644,563	22,644,563	(9,562)	-	-	-	(9,562)
Education of the Handicapped 04/05		24,546,835	24,253,976	(292,859)	-	-	-	(292,859)
Education of the Handicapped 06/07		22,736,893	20,720,867	7,595,900	-	9,611,926	2,016,026	-
Education of the Handicapped 07/08		22,846,811	-	-	-	15,135,799	18,791,347	3,655,548
WCRESA IDEA Center Expansion 04/05		3,935,295	3,557,992	(450,649)	-	-	-	(450,649)
WCRESA IDEA Center Expansion 06/07		4,135,656	4,137,161	1,568,488	(1,505) *	1,566,983	-	-
WCRESA IDEA Center Expansion 07/08		3,728,990	-	-	-	2,697,228	3,113,271	416,043
Assistive Technology Training and Information Center Grant - 04/05		499,906	487,375	(12,531)	-	-	-	(12,531)
Assistive Technology Training and Information Center Grant - 05/06		500,000	383,577	(116,423)	-	-	-	(116,423)
Assistive Technology Training and Information Center Grant - 06/07		500,000	398,729	72,974	-	174,245	101,271	-
Assistive Technology Training and Information Center Grant - 07/08		500,000	-	-	-	329,845	346,825	16,980
Barsamian Assessment Center - Capacity Building Center - Project		375,475	271,309	(157,590)	-	-	-	(157,590)
Barsamian Assessment Center - Capacity Building Center - Project		424,680	<u>351,690</u>	<u>(72,551)</u>	-	-	-	<u>(72,551)</u>
Total Individuals with Disabilities Education Act			<u>77,207,239</u>	<u>8,125,197</u>	<u>(1,505)</u>	<u>29,516,026</u>	<u>24,368,740</u>	<u>2,976,406</u>

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (continued)
For the Year Ended June 30, 2008

Federal Grantor/Pass-through Grantor/ Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Prior Years Expenditures (Memo Only)	Accrued (Deferred) Revenue at June 30, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2008
U.S. Department of Education (continued):								
Passed through the Michigan Department of Education (continued):								
Special Education Cluster (concluded):								
Preschool Incentive:	84.173							
Preschool Incentive - 04/05		\$ 874,904	\$ 700,153	\$ (137,630)	\$ -	\$ -	\$ -	(137,630)
Preschool Incentive - 06/07		874,904	574,852	183,051	-	223,151	35,643	(4,457)
Preschool Incentive - 07/08		634,952	-	-	-	431,003	502,722	71,719
Infant Interagency - 06/07		88,000	57,302	13,302	-	28,053	4,029	(10,722)
Infant Interagency - 07/08		87,938	-	-	-	44,000	1,320	(42,680)
Total Preschool Incentive			<u>1,332,307</u>	<u>58,723</u>	<u>-</u>	<u>726,207</u>	<u>543,714</u>	<u>(123,770)</u>
Total Special Education Cluster			<u>78,539,546</u>	<u>8,183,920</u>	<u>(1,505)</u>	<u>30,242,233</u>	<u>24,912,454</u>	<u>2,852,636</u>
Career & Technical Education (Perkins II):	84.048							
Project number 073520 7012-24		4,339,485	3,436,907	641,638	-	877,045	235,407	-
Project number 083520 8012-24		4,553,074	-	-	-	2,957,738	3,552,469	594,731
Total Career & Technical Education (Perkins II)			<u>3,436,907</u>	<u>641,638</u>	<u>-</u>	<u>3,834,783</u>	<u>3,787,876</u>	<u>594,731</u>
Drug-free Schools and Communities National Program:	84.184							
Project number 042600/0CS03A		93,272	91,267	(2,005)	-	-	-	(2,005)
Project number 042600 CS205		10,500	7,607	(2,893)	-	-	-	(2,893)
Total Drug-free Schools and Communities National Program			<u>98,874</u>	<u>(4,898)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,898)</u>
Safe and Drug-free Schools and Communities:	84.186							
Project number 062860 0607		767,302	590,098	73,775	(669,347) *	126,730	15,273	(707,029)
Project number 072860 0607		2,177,477	1,006,948	(669,347)	669,647 *	481,804	(121,271)	(602,775)
Project number 072860 0708		19,378	-	-	-	-	-	-
Project number 082860 0708		2,173,017	-	-	-	311,682	540,807	229,125
Total Safe and Drug-free Schools and Communities			<u>1,597,046</u>	<u>(595,572)</u>	<u>300</u>	<u>920,216</u>	<u>434,809</u>	<u>(1,080,679)</u>
Homeless Children and Youths:	84.196							
Project number 062320 0607-C		36,009	-	-	36,009 *	36,009	-	-
Project number 072320 0607		231,454	149,107	17,675	-	21,152	3,477	-
Project number 072320 0708-C		75,028	-	-	-	33,063	33,776	713
Project number 082320 0708		227,858	-	-	-	169,561	204,616	35,055
Total Homeless Children and Youths			<u>149,107</u>	<u>17,675</u>	<u>36,009</u>	<u>259,785</u>	<u>241,869</u>	<u>35,768</u>
Smaller Learning Community Phase 2	84.215	2,500,000	1,779,276	78,972	-	386,870	109,561	(198,337)

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (continued)
For the Year Ended June 30, 2008

Federal Grantor/Pass-through Grantor/ Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Prior Years Expenditures (Memo Only)	Accrued (Deferred) Revenue at June 30, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2008
U.S. Department of Education (continued):								
Passed through the Michigan Department of Education (continued):								
Vocational Education - Tech Prep:	84.243							
Project number 073540 7014-24		\$ 153,562	\$ 69,655	\$ (3,590)	\$ -	\$ 44,474	\$ 17,278	(30,786)
Project number 083540 8014-24		159,871	-	-	-	5,931	41,393	35,462
Total Tech Prep			<u>69,655</u>	<u>(3,590)</u>	<u>-</u>	<u>50,405</u>	<u>58,671</u>	<u>4,676</u>
21st Century Community Learning Center:								
Project number 042110 21st079	84.287	850,000	26,116	(12,501)	-	-	-	(12,501)
Project number 062110 21st02-078		875,000	715,409	10,302	-	10,302	-	-
Project number 062110 21st02-079		875,000	688,416	34,865	-	34,865	-	-
Project number 072110 04-029		850,000	780,421	298,774	-	333,866	35,092	-
Project number 072110 04-030		850,000	720,064	245,639	-	343,747	98,108	-
Project number 072110 04-032		850,000	774,116	41,497	-	88,040	46,543	-
Project number 072110 21st03-060		850,000	774,581	60,656	-	136,075	75,419	-
Project number 072110 21st03-061		850,000	705,970	56,648	-	118,483	61,835	-
Project number 072110 21st03-062		850,000	688,860	30,231	-	118,455	88,224	-
Project number 072110 21st03-063		850,000	744,412	39,178	-	110,103	70,925	-
Project number 072110 21st03-064		850,000	762,803	43,354	-	130,551	87,197	-
Project number 072110 21st03-065		850,000	717,377	37,511	-	127,620	90,109	-
Project number 082110 04029		850,000	-	-	-	412,409	594,219	181,810
Project number 082110 04030		850,000	-	-	-	446,718	607,262	160,544
Project number 082110 04032		850,000	-	-	-	500,174	661,655	161,481
Project number 082110 21st03060		850,000	-	-	-	450,779	481,031	30,252
Project number 082110 21st03061		850,000	-	-	-	444,288	617,123	172,835
Project number 082110 21st03062		850,000	-	-	-	433,692	552,155	118,463
Project number 082110 21st03063		850,000	-	-	-	453,331	591,660	138,329
Project number 082110 21st03064		850,000	-	-	-	453,551	555,701	102,150
Project number 082110 21st03065		850,000	-	-	-	478,534	563,945	85,411
Project number 082110 D07027		750,000	-	-	-	49,106	139,309	90,203
Project number 082110 D07035		750,000	-	-	-	51,092	190,781	139,689
Total 21st Century Community Learning Center			<u>8,098,545</u>	<u>886,154</u>	<u>-</u>	<u>5,725,781</u>	<u>6,208,293</u>	<u>1,368,666</u>
Title V Part A								
Project number 060250 0607	84.298	673,884	666,442	666,442	-	673,884	7,442	-
Project number 070250 0607		711,841	711,841	443,130	-	294,949	(148,181)	-
Project number 080250 0708		756,980	-	-	-	133,256	283,966	150,710
Title II, Part A Transfer - Project number 080520 0708		2,331,412	-	-	(2,331,412) **	-	2,331,412	-
Total Title V Part A			<u>1,378,283</u>	<u>1,109,572</u>	<u>(2,331,412)</u>	<u>1,102,089</u>	<u>2,474,639</u>	<u>150,710</u>

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (continued)
For the Year Ended June 30, 2008

Federal Grantor/Pass-through Grantor/ Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Prior Years Expenditures (Memo Only)	Accrued (Deferred) Revenue at June 30, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2008
U.S. Department of Education (concluded):								
Passed through the Michigan Department of Education (concluded):								
Technology Literacy Challenge (Title II Part D):	84.318							
Project number 084290 0708		\$ 1,911,160	\$ -	\$ -	\$ -	\$ 71,276	\$ 337,044	265,768
Project number 074290 0607		1,321,694	196,930	(176,917)	-	304,189	402,998	(78,108)
Total Technology Literacy Challenge			<u>196,930</u>	<u>(176,917)</u>	<u>-</u>	<u>375,465</u>	<u>740,042</u>	<u>187,660</u>
Comprehensive School Reform Demonstration -	84.332							
Project number 061870 0607		632,150	467,559	451,232	-	541,418	83,951	(6,235)
MDE Gear-up 04-05	84.334	569,706	484,274	632	(632) *	-	-	-
MDE Gear-up 05-06		588,687	431,408	106,729	(106,729) *	-	-	-
Total MDE Gear-up			<u>915,682</u>	<u>107,361</u>	<u>(107,361)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reading First State Grants:	84.357							
Project number 042930 0505		6,145,166	-	(819,436)	-	-	-	(819,436)
Project number 052930 0506		7,222,065	5,223,915	(36,505)	-	-	-	(36,505)
Project number 062930 040302		589,630	566,567	(23,063)	-	-	-	(23,063)
Project number 072930 0607		7,501,907	7,045,560	1,801,454	-	2,257,802	181,522	(274,826)
Project number 082930 0708		8,453,590	-	-	-	5,272,204	6,942,047	1,669,843
Total Reading First State Grants			<u>12,836,042</u>	<u>922,450</u>	<u>-</u>	<u>7,530,006</u>	<u>7,123,569</u>	<u>516,013</u>
Title III Limited English:	84.365							
Project number 060570 0506		25,000	-	-	-	25,000	25,000	-
Project number 070570 0607		346,158	200,375	-	-	86,130	86,130	-
Project number 070580 0607		1,269,426	677,807	22,275	(156,679) *	(72,024)	62,380	-
Project number 080580 0708		2,210,870	-	-	-	534,127	877,225	343,098
Project number 080570 0708		260,027	-	-	-	103,783	95,379	(8,404)
Total Title III Limited English			<u>878,182</u>	<u>22,275</u>	<u>(156,679)</u>	<u>677,016</u>	<u>1,146,114</u>	<u>334,694</u>
Title II , Part A Teacher Training/ Principal Training:	84.367							
Project number 060520 0607		543,612	502,355	502,355	-	543,612	22,577	(18,680)
Project number 070520 0607		22,296,300	17,335,693	6,292,651	-	8,715,343	2,422,692	-
Project number 070540 0607		46,734	-	-	-	43,734	43,734	-
Project number 080520 0708		17,137,934	-	-	2,331,412 **	7,698,752	7,611,037	2,243,697
Total Title II , Part A Teacher Training			<u>17,838,048</u>	<u>6,795,006</u>	<u>2,331,412</u>	<u>17,001,441</u>	<u>10,100,040</u>	<u>2,225,017</u>
Total passed through the Michigan Department of Education			<u>285,602,382</u>	<u>89,331,665</u>	<u>(253,884)</u>	<u>212,211,726</u>	<u>160,447,417</u>	<u>37,313,472</u>
Total U.S. Department of Education			<u>286,093,720</u>	<u>89,469,878</u>	<u>(238,216)</u>	<u>212,589,625</u>	<u>160,682,787</u>	<u>37,324,824</u>

DETROIT PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards (concluded)
For the Year Ended June 30, 2008

Federal Grantor/Pass-through Grantor/ Program Title/Project Number/Subrecipient Name	CFDA Number	Unaudited Approved Award Amount	Prior Years Expenditures (Memo Only)	Accrued (Deferred) Revenue at June 30, 2007	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2008
U.S. Department of Health and Human Services:								
Passed through the City of Detroit Neighborhood Services Department:								
Head Start 04-05	93.600	\$ 7,755,466	\$ 7,737,790	\$ 13,910	\$ (13,910) *	\$ -	\$ -	-
Head Start 06-07		3,637,379	2,281,324	1,751,968	2,609 *	2,906,864	1,152,287	-
Head Start 07-08		3,637,381	-	-	-	2,355,247	3,042,194	686,947
Head Start Special Education 04-05		199,206	166,104	(6,091)	6,091 *	-	-	-
Head Start Special Education 06-07		200,172	57,805	45,332	406 *	171,263	125,525	-
Head Start Special Education 07-08		200,172	-	-	-	39,436	99,886	60,450
Total passed through the City of Detroit			<u>10,243,023</u>	<u>1,805,119</u>	<u>(4,804)</u>	<u>5,472,810</u>	<u>4,419,892</u>	<u>747,397</u>
Passed through the Wayne County RESA:								
Medical Assistance Program:	93.778							
Medicaid Outreach 06-07		1,972,338	1,647,960	-	-	324,378	324,378	-
Medicaid Outreach 07-08		428,122	-	-	-	428,122	428,122	-
Pupil Transportation		978,189	-	-	-	978,189	978,189	-
Total Medical Assistance Program			<u>1,647,960</u>	<u>-</u>	<u>-</u>	<u>1,730,689</u>	<u>1,730,689</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>11,890,983</u>	<u>1,805,119</u>	<u>(4,804)</u>	<u>7,203,499</u>	<u>6,150,581</u>	<u>747,397</u>
Total Federal Awards			<u>\$ 334,588,931</u>	<u>\$ 101,066,926</u>	<u>\$ (371,307)</u>	<u>\$ 258,340,719</u>	<u>\$ 197,147,084</u>	<u>39,501,984</u>

* Amount represents adjustments to prior year expenditures

** Amount represents a transfer of Title II, Part A funds to Title V

See accompanying notes to the SEFA

DETROIT PUBLIC SCHOOLS
Reconciliation of Revenue with Expenditures for Federal Award Programs
For the Year Ended June 30, 2008

Federal sources reported in the financial statement	\$ 196,922,940
Revenue deferred based on availability	<u>224,144</u>
Expenditures reported in the accompanying schedule of expenditures of federal awards	<u><u>\$ 197,147,084</u></u>

DETROIT PUBLIC SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal awards programs of Detroit Public Schools (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The Detroit Public Schools reporting entity is defined in Note I of the District's financial statements. Expenditures are in agreement with amounts reported in the basic financial statements.

2. Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

3. Grant Section Auditor's Report

Management has utilized the Grants Section Auditors Report (form R7120) and Grant Auditor Report (Cash Management System) in preparing the Schedule of Expenditures of Federal Awards.

* * * * *



**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

December 10, 2008

Board of Education
Detroit Public Schools
Detroit, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Detroit Public Schools*, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Detroit Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Detroit Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Detroit Public Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-01 through 2008-50 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-01 through 2008-12 to be material weaknesses.

Compliance and other Matters

As part of obtaining reasonable assurance about whether Detroit Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of finding and questioned costs as items 2008-51 through 2008-53.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Audit Committee, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

December 10, 2008

Board of Education
Detroit Public Schools
Detroit, Michigan

Compliance

We have audited the compliance of *Detroit Public Schools* (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Qualifications (Noncompliance)

As identified on the following pages and described in the accompanying schedule of findings and questioned costs, the District did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to the identified major federal programs.

Federal Program	CFDA#	Finding Numbers
Title I, Part A	84.010	2008-57, 2008-58, 2008-62, 2008-65, 2008-72, 2008-81
Special Education Cluster	84.027 & 84.173	2008-57, 2008-58, 2008-65, 2008-72, 2008-81
21 st Century Grants	84.287	2008-57, 2008-58, 2008-62, 2008-77, 2008-81
Career and Technical Education	84.048	2008-57, 2008-58, 2008-62, 2008-65, 2008-72, 2008-81
Reading First Grants	84.357	2008-62, 2008-72, 2008-78
Title II, Part A	84.367	2008-57, 2008-58, 2008-61, 2008-62, 2008-81
Head Start	93.600	2008-57, 2008-58, 2008-61, 2008-65, 2008-72

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, which are described in the accompanying schedule of findings and questioned costs, as items 2008-54, 2008-55, 2008-56, 2008-59, 2008-60, 2008-66, 2008-67, 2008-68, 2008-69, 2008-73, 2008-76, 2008-82, 2008-83 and 2008-84.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Detroit Public Schools' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-54 through 2008-84 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2008-55, 2008-57, 2008-58, 2008-61, 2008-62, 2008-65, 2008-70, 2008-71, 2008-72, 2008-74, 2008-77, 2008-78, 2008-79, and 2008-81 to be material weaknesses.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Detroit Public Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008.

Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Detroit Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Audit Committee, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

X yes no

Significant deficiency(ies) identified
not considered to be material weaknesses?

X yes none reported

Noncompliance material to financial statements
noted?

X yes no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

X yes no

Significant deficiency(ies) identified
not considered to be material weaknesses?

X yes none reported

Type of auditors' report issued on compliance
for major programs:

Child Nutrition Cluster	CFDA# 10.553 & 10.555	<u>Unqualified</u>
Title I, Part A	CFDA# 84.010	<u>Qualified</u>
Special Education Cluster	CFDA# 84.027 & 84.173	<u>Qualified</u>
Career & Technical Education	CFDA# 84.048	<u>Qualified</u>
21 st Century Community Learning	CFDA# 84.287	<u>Qualified</u>
Reading First	CFDA# 84.357	<u>Qualified</u>
Title II, Part A	CFDA# 84.367	<u>Qualified</u>
Head Start	CFDA# 93.600	<u>Qualified</u>

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

X yes no

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Dollar threshold used to distinguish
between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? _____ yes X no

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings

2008-01 **Preparation of Financial Statements (Repeat)**

Finding type: Material weakness in internal controls over financial reporting

Criteria: Per Michigan Public School Accounting Manual, Section II, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties: the school board; the administration; the public; auditors; local, state and federal authorities; and school employees. In addition, the accounting system should be designed to demand accuracy and a reasonable degree of internal controls.

Condition: Material audit adjustments were necessary for the financial statements to be fairly stated. Additionally, we also noted that the financial statements and related information were not prepared soon enough after year-end to result in timely financial reporting (as defined by the Michigan Department of Education, which has established a reporting deadline of November 15 of each year). However, the District was given a revised due date as a condition of the Consent Agreement.

Cause: The internal control procedures related to evaluating and preparing the financial statements are not properly designed to ensure that the financial statements, related footnote disclosures, and supplementary information are properly recorded and fairly stated.

Effect: Financial statements were not available in a timely manner to meet statutory reporting and other deadlines. Also, without including the material audit adjustments, the financial statements would have been materially misstated.

Recommendation: Although all necessary corrections were made to the financial statements prior to final issuance, we recommend that management conduct a more consistent and thorough evaluation of prepared draft financial statements, including a reconciliation of all significant financial statement accounts.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-02 **Chief Audit Executive (Repeat)**

Finding type: Material weakness in internal controls over financial reporting

Criteria: An effective system of control over financial reporting relies on a sound internal control environment including a tone at the top that supports the role of Chief Audit Executive as an essential component to achieving financial, operational, and technological success. The establishment of the role of Chief Audit Executive within the organization provides a continuity of effort in areas such as monitoring of internal control design and operational effectiveness, and would add expertise within the District to assist with monitoring and assessing compliance with laws, regulations, grant agreements, and contracts.

Condition: The District began a search for a Chief Audit Executive, but has not filled that position on a permanent basis.

Cause: The District was not able to find a qualified candidate during the initial search.

Effect: The inability to fill this key position on a permanent basis leads to the lack of continuity in the effort to identify and communicate control deficiencies to management and the board in a timely manner. This lack of continuity also reduces the effectiveness of an internal audit organization in deterring and detecting errors, irregularities, or fraud.

Recommendation: We recommend that the District continue its search for a Chief Audit Executive and to assign this person with responsibilities to monitor and assess internal control deficiencies and communicate to top management, the board or the audit committee. The District has recently hired an outside consulting firm to perform internal audit functions. This firm will assist in the search for the Chief Audit Executive.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-03

Fraud Detection (Repeat)

Finding type:	Material weakness in internal controls over financial reporting
Criteria:	An effective fraud risk management program has internal controls designed to: 1) reduce the risk of fraud and misconduct from occurring (prevention controls); 2) discover fraud and misconduct when it occurs (detection controls); and 3) take corrective action and remedy the harm caused by the fraud or misconduct (responsive controls).
Condition:	The District has not adopted a comprehensive and integrated approach to fraud risk management that takes all relevant considerations into account.
Cause:	The District has not designed and implemented a full system of antifraud controls which includes preventive, detective, and responsive controls.
Effect:	The District faces a variety of fraud and misconduct risks that are increased as a result of not having a comprehensive and integrated approach to fraud risk management.
Recommendation:	The District should undertake designing and implementing a comprehensive program that contains the following elements: 1) prevention controls such as a fraud and misconduct risk assessment, development of a code of conduct, employee education on code of conduct and related regulations, employee and third-party due diligence, and process-specific fraud risk controls; 2) detection controls such as establishing a hotline and whistleblower mechanisms, establishing internal audit, implementing monitoring activities, and conducting proactive forensic data analysis; and 3) responsive controls such as internal investigation protocols, enforcement and accountability protocols, and remedial action protocols.
View of Responsible Official:	Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-04 Individual Schools – Cash and Disbursements (Repeat)

Finding type: Material weakness in internal controls over financial reporting

Criteria: Per section V, A.03 of the Michigan Public School Accounting Manual, the District must have a system that provides for the design, implementation and maintenance of effective control-related policies and procedures. The key categories of control-related policies and procedures for accounting and financial reporting are as follows: authorization, properly designed records, security of assets and records, segregation of incompatible duties, periodic reconciliations, periodic verification and analytical review.

Condition: During our tests of individual school cash transactions, we noted the following: 1) cash receipts are not deposited in a timely manner, 2) cash turned in to the bookkeeper/secretary lacks supporting documentation/detail, 3) proper documentation is not maintained for disbursements, as such the supporting documentation does not agree to the actual disbursement amount, 4) the schools do not have staff with the appropriate knowledge to properly maintain the school accounting records, 5) the schools do not use a standard accounting system for record keeping, thus resulting in poorly maintained and inconsistent records, 6) the schools do not adhere to the District's policies and procedures regarding proper documentation of accounting records and forms, and 7) not all schools prepare bank reconciliations and when such reconciliations are performed, evidence of approval is not consistently documented.

Cause: The individual schools did not follow the Michigan Public School Accounting Manual and the policies prescribed by the District. Therefore, internal control procedures related to evaluating and recording cash are not properly designed and implemented to ensure that all cash and disbursements are properly recorded.

Effect: Without appropriate internal controls at individual schools, cash and disbursements are not properly recorded and reconciled, therefore, increasing the risk of misappropriation of cash and errors that go undetected.

Recommendation: Standardized procedures relating to the recording of cash and disbursement by schools should be established and enforced by the District.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-05

Accounts Payable – Review

Finding type:	Material weakness in internal controls over financial reporting
Criteria:	The supporting subsidiary ledger detail should be reviewed for proper classification of items.
Condition:	We identified non-standard balances in the accounts payable detail (debit balances), and found that such items are not assessed for potential reclassification, or to determine the underlying cause of the non-standard balance.
Cause:	Appropriate procedures do not exist to identify, research and adjust as needed non-standard balances within the accounts payable detail (there are various reasons for debit balances appearing on the aging: print shop process not being followed and budget errors not being resolved in a timely manner; student transportation process not being followed; credits from the vendors; reversing entries; vouchers being paid yet the accrual journal entry is not entered).
Effect:	The classification of asset and liability balances could be inappropriate.
Recommendation:	The monthly closing process should include a review of the accounts payable detail to determine if unusual items (high dollar amounts, unusual vendors, debit amounts, etc) exist, and appropriate reclassifications made as necessary.
View of Responsible Official:	Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-06	Accounts Payable – Subledger Reconciliation (Repeat)
Finding type:	Material weakness in internal controls over financial reporting
Criteria:	In carrying out its regular management activities, operating management should obtain evidence that the system of internal control continues to function. These actions include performing timely, accurate, reconciliations of account detail to general ledger control account balances.
Condition:	We initially received an Accounts Payable aging and reconciliation that agreed to the Accounts Payable general ledger control account. However, when we received the District's final trial balance, the accounts payable aging did not agree with the control account. Accounts Payable cutoff should have been closed as of August 31, 2008, and no additional adjustments should have been made to the ledger detail, other than manual accruals to properly reflect liabilities at year end. A new reconciliation was not prepared by the District to agree the detail to the adjusted general ledger balance.
Cause:	Ineffective control procedures requiring timely reconciliations and related management review.
Effect:	Errors in the detail may not be identified in a timely manner.
Recommendation:	Reconciliations should be performed each time adjustments are made that impact the account detail or control account.
View of Responsible Official:	Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-07 Accounts Payable – Overstatement

Finding type: Material weakness in internal controls over financial reporting

Criteria: Policies and procedures for recording accounts payable prevent duplicate entry of invoices and recording in the general ledger.

Condition: We found that vouchers modified subsequent to June 30, 2008 were appearing in the accounts payable aging twice. If an existing voucher in the accounts payable system is modified, the system creates a new voucher with the modified information and does not delete or replace the old voucher. If the modifications are made within the same month as the original posting, this error is self correcting. However, if the modification is made in the month following original entry of the voucher, a duplicate voucher will result.

Cause: Automated controls do not exist that prevent creation of duplicate invoices and year end close procedures are inadequate to detect errors.

Effect: Accounts payable and related expense / asset accounts were overstated at June 30, 2008, by approximately \$26 million prior to the posting of a correcting entry.

Recommendation: Posting of invoices should be reviewed prior to month end to avoid or minimize the need for subsequent modifications. Modification of the system to implement an automated control that prevents creation of a duplicate invoice should be pursued.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-08 Accounts Payable – Cutoff (Repeat)

Finding type: Material weakness in internal controls over financial reporting

Criteria: Per Michigan Public School Accounting Manual, Section II, Paragraph A.02 (c), expenditures for services are recorded when the services are performed. Expenditures for materials and supplies are recorded when the items are placed in service. If supply items are purchased for future use, the transaction is recorded in an inventory account. A charge to an expense account is made when the item is requisitioned for use. Expenses paid that cover future periods, such as for a multi-year insurance policy, are recorded as prepaid expenditures to the extent of the portion not yet expended.

Condition: The cutoff procedures used to capture and record invoices in the proper accounting period are not effective. We identified invoices that were both improperly included and excluded from accounts payable at year end. Further, the District continued to adjust accounts payable subsequent to its stated cutoff date of August 31, 2008.

Cause: Invoices can be entered with an incorrect accounting period through the PeopleSoft system depending on the date entered for the accounting period. The procedure for determining the proper accounting period is not consistently being followed and there is not consistent review of transactions for proper cutoff.

Effect: The general ledger balance of accounts payable may be over- or under-stated, along with related expense/asset accounts.

Recommendation: We recommend that control activities that ensure proper cutoff be evaluated for effectiveness. For example, year-end cutoff could be improved by requiring those who approve invoices for payment to stamp them with a “before year end” or “after year end” stamp, or a color coded stamp to reflect the proper accounting period.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-09	Classification of Construction in Progress (CIP)
Finding type:	Material weakness in internal controls over financial reporting
Criteria:	Per section A.01 of the Michigan Public School Accounting Manual, a school district financial record system should be adequate to provide financial and related operational information for all interested parties; the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. The accounting system should be designed to demand accuracy and a reasonable degree of internal control.
Condition:	There is a lack of controls over construction in progress project classification. When a project is completed, the accounting department is not notified; therefore, there could be a lapse in time from the time the project is completed to when the District records the project as “in service”. This lack of control also affects the District’s ability to properly record depreciation.
Cause:	Construction managers are not required to notify the accounting department upon the completion of a construction in progress project, and internal control procedures are not effective for monitoring the status of such projects.
Effect:	Capital assets were initially misclassified between construction in process and depreciable assets. This misclassification resulted in an understatement of depreciation expense.
Recommendation:	Each major component of District-wide projects should be reclassified into depreciable status when placed into service. The accounting policies of the District should be modified to reflect this change.
View of Responsible Official:	Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-10

Capital Assets – Depreciation

Finding type:	Material weakness in internal controls over financial reporting
Criteria:	Depreciation on capital assets should be computed in accordance with the District's capitalization policy using in-service dates of either July 1, or January 1.
Condition:	We noted that \$168,769,158 was transferred out of Construction In Process and capitalized as of the midyear date of January 1, 2008. However, the amount of CIP capitalized consisted of a significant amount of assets that had been placed into service and should have been depreciated prior to July 1, 2007, based on the District's stated depreciation policy. For example, some of these assets were placed into service as far back as 2001. The impact was to initially understate accumulated depreciation by \$12,799,498.
Cause:	The District did not follow its in-service capitalization policy, and ineffective reconciliation and management review exists to ensure that all assets are depreciated in the proper period.
Effect:	Accumulated depreciation and depreciation expense were understated prior to the posting of a correcting entry.
Recommendation:	The District should analyze its capital asset additions, especially those in construction in process, and begin depreciation in accordance with District policy on those assets placed into service.
View of Responsible Official:	Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-11

Capital Assets – Impairment

Finding type:

Material weakness in internal controls over financial reporting

Criteria:

Assets that have been retired or disposed of should be removed from the general ledger. Assets that have been impaired should be revalued in the general ledger and asset records. Assessment of impairment should ideally be based on appraisals, or other objective analysis, as described in GASB 42.

Condition:

There is no process to track capital assets that were disposed other than those included in the school closing list. Impairment analysis initially prepared by the District did not include all closed sites.

Cause:

The District does not have documented processes for performing overall asset impairment evaluations which is consistent with GASB 42 or a process to track capital asset disposals.

Effect:

The general ledger may not accurately reflect current asset values.

Recommendation:

The District should establish control activities to identify assets that have been removed or otherwise impaired at schools and other business locations, and that financial records are updated to reflect changes. An impairment analysis of closed sites should also be completed and retained during the fiscal year that the school is closed. Such procedures would be part of overall activities that periodically reconcile the recorded balances of capital assets to verification of physical existence.

View of
Responsible
Official:

Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-12 Payroll – Stipends and Bonus Pay

Finding type: Material weakness in internal controls over financial reporting

Criteria: Per Michigan Public School Accounting Manual, Section II, A.02, expenditures are recognized when the related fund liability is incurred, except for principal and interest on long-term debt, which are recorded when due. As an example, expenditures for payroll services should be recorded in the period in which the services to receive the compensation were completed. Per Section II, E.01, indicates liabilities should be accrued at the time they are incurred. Liabilities that governments normally pay in a timely manner in full from expendable available financial resources, (for example, salaries) should be recognized when incurred without regard to the extent to which resources are currently available to liquidate the liability.

Condition: Payments made to employees who are eligible to receive earnings related to stipends and special bonus pay, as determined by their respective union contracts, were expensed in the year subsequent to when earned. The District's current practice for stipends and bonus pay is to record them as expenses in the year that they are paid, rather than accruing for the amounts in the year they were earned.

Cause: The established practice of recording stipends and bonus pay as an expense when paid, rather than accruing the amounts in the period in which the compensation was earned by employees, is not in accordance with GAAP.

Effect: Prior to the recording of a correcting entry there was an understatement of prior year and current year accrued payroll of approximately \$7,703,000 and \$5,570,000 , respectively.

Recommendation: Individuals responsible for establishing accounting policies and practices should be experienced and well-trained. Management of the District should review all of its accounting policies and practices to ensure compliance with GAAP and the Michigan Public School Accounting Manual.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-13 Entity Level, System of Controls

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: An effective system of control over financial reporting based on the COSO framework includes formal, documented policies and procedures relating to: 1) the control environment; 2) a systematic and regular approach to risk assessment; 3) the establishment of control activities that are directly related to key financial processes and procedures; 4) the communication of key financial objectives along with corresponding control activities and accountabilities; and 5) processes and procedures to monitor adherence to all components of internal control over financial reporting.

Condition: The District does not have a fully developed and documented system of internal control over Financial Reporting that is based upon the COSO model.

Cause: The District has not: 1) established a systematic and regular approach to risk assessment; 2) fully established and documented control activities related to key financial processes and procedures; 3) communicated key financial objectives along with related control activities and accountabilities; 4) established processes and procedures to monitor adherence to all components of internal control over financial reporting.

Effect: The District faces a variety of fraud, misconduct, and financial misstatement risks as a result of not having a fully developed and documented system of internal control over financial reporting.

Recommendation: We recommend that the District formally implement the COSO framework of internal control over financial reporting, including completion of formal, written documentation for each COSO element, and clear identification of policies and procedures to prevent and detect fraud.

View of Responsible Officials: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-14

Budget

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: The Michigan Public School Accounting Manual, Section IV, indicates that, when used appropriately, a budget provides the school board and administration with the ability to control and evaluate the use of the district's funds.

Condition: During our review of manual journal entries, we noted that a payroll related budget overrun under a state grant program was not budgeted in the general fund.

Cause: Internal controls are not properly designed to address budget requirements and to monitor budgetary requirements throughout the fiscal year.

Effect: An expected budget overrun in the grant fund (Fund #14) was not identified and budgeted/amended in the general fund (Fund #11) resulting in an increased budget deficit at the District.

Recommendation: We recommend that management implement budgetary procedures to ensure anticipated overruns on grant programs are identified and included in the general fund budget. We further recommend that management implement a budgetary monitoring system whereby unexpected overruns are identified timely and appropriate budget amendments are made.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-15

Human Resources and Benefits

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Segregation of duties should exist between those with access to create/update employee records, input/change compensation rates and/or job codes, create or change payroll sheets, and run pay cycles.

Condition: In comparing three separate lists of people with access to create/change employee records, create/change payroll sheets, and run pay cycles we found two separate individuals that had access to perform all three functions.

Cause: Access to perform multiple functions has been given to individuals that serve in IT/support functions.

Effect: When there is no segregation of incompatible duties there is an increased risk that fraudulent transactions may occur.

Recommendation: The District should establish clear procedures to determine which Human Resources and Payroll security roles within PeopleSoft should be segregated. These procedures should be included as part of the process of review that is used to obtain security access.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-16 Individual Schools – Cash Receipts

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: All cash receipts from athletic activities are not to be deposited into individual school bank accounts, but instead are to be remitted to the central accounting office in a timely manner.

Condition: Certain schools do not consistently remit cash receipts to the central accounting office for revenue received from sporting events and other related activities.

Cause: The District’s internal control procedures related to evaluating and recording cash are not being properly implemented and enforced to ensure that all cash and disbursements are properly recorded.

Effect: The District does not enforce the policies and procedures that have been prescribed for the individual schools; therefore, cash receipts are not properly recorded, reconciled and submitted to the central accounting office in a timely manner, thus increasing the risk of misappropriation of cash and errors that go undetected.

Recommendation: Policies and procedures prescribed by the District for schools should be enforced and monitored.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-17 Investment Management – Reporting (Repeat)

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Per Detroit Public Schools Investment Policy, Number 12.0, Reporting: The investment manager shall prepare an investment report at least monthly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio. This management summary will be prepared in a manner that will allow the District to ascertain whether investment activities during the reporting period have conformed to the investment policy. Quarterly reports shall be prepared and made available for review by the investment manager within 15 days of quarter-end. The report will include the following: a listing of individual securities held at the end of the reporting period; average weighted yield to maturity of portfolio on District investments as compared to applicable benchmarks; listing of investments by maturity date; the percentage of the total portfolio that each type of investment represents; the percentage of the total portfolio that each institution is holding; the percentage of the total portfolio broken down by defined maturity periods; and principal and type of investment by fund.

Condition: Based on our test of investments and inquiry of management, we noted that the quarterly investment reports are not being prepared, as required.

Cause: The individual responsible for preparing the reports did not comply with the policy, and management review was not effective in ensuring compliance with the policy.

Effect: Lack of availability of the quarterly reports increases the likelihood that departures from the established investment policy will not be identified in a timely manner.

Recommendation: The quarterly reports should be prepared and reviewed in accordance with District policy.

View of Responsible Officials: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-18

Investments – Written Policies

Finding type:	Significant deficiency in internal control over financial reporting
Criteria:	Established control activities should be available in written form, and be accessible by those responsible for executing, reviewing and approving transactions.
Condition:	Based on our tests of investments, we noted no formal written documentation describing the control activities which should be performed relating to the initiation and authorization, processing and recording, or monitoring and reconciliation of investments.
Cause:	Detailed written procedures are not established and maintained by the District.
Effect:	Individuals responsible for investment activities may not properly perform control activities and thus cause the District to be in non-compliance with investment restrictions and/or limitations imposed by funding sources.
Recommendation:	The District should document its investment control activities relating to initiating, authorizing, processing, recording, monitoring, and reconciling. Procedures should clearly identify responsibilities, accountabilities, and key controls over the investment transaction cycles.
View of Responsible Officials:	Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-19 Other Receivables – Reconciliation

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: One of the key categories of control-related policies and procedures for accounting and financial reporting is the practice of periodic reconciliations of accounts with supporting detail. It is important that related accounting records be compared on a periodic basis to ensure that financial records are complete and accurate, and that recorded assets exist and are properly valued for such matters as collectability and impairment.

Condition: The prior year other accounts receivable balance of \$1,910,633 was carried over to the current year. The balance had not been reviewed throughout the year to determine collectability, nor to ascertain if the supporting detail was appropriate. The entire balance of the account was written off as a result of the audit inquiry.

Cause: Proper reconciliation of the account to supporting detail was not performed, nor was collectability assessed. Proper management review was not conducted to ensure that such reconciliation was performed. An aging for other accounts receivable is not maintained.

Effect: As a result of this condition, the District's assets were initially overstated by \$1,910,633, and required adjustments.

Recommendation: The District should maintain a supporting aging for other accounts receivable, and require periodic reconciliation of the general ledger control account to such supporting aging; management review and approval of the periodic reconciliations should be performed.

View of Responsible Officials: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-20 Capital Assets – Use of Service Organizations (Capital Assets and Workers Compensation) (Repeat)

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: When management is relying on a service organization to process transactions or conduct record keeping on its behalf, management is still responsible for establishing and maintaining sound internal controls, including proper management review and approval of the service provider's work, and evaluation of the service provider's internal control.

Condition: The District uses a service organization to maintain asset records, including computation of depreciation, in support of asset values contained within the general ledger; the District also uses a service organization to maintain workers compensation records in support of benefits expense/liability amounts in the general ledger. Management has not formally evaluated controls in place at the service providers, and neither service provider has a Type II SAS 70 report. However, management has made an initial visit to the workers compensation service organization as a first step in an on-going monitoring program. Further, the District does not currently have a process or timeline to periodically review and approve policies, procedures, and methods of calculation related to depreciation that are performed by its third party service provider.

Cause: The District's internal control procedures do not require an evaluation or independent verification of the service organization's own internal control design or effectiveness, and there is an inadequate policy requiring review and approval of the work of third party service providers who are part of the District's internal control structure.

Effect: Work performed by third party service providers may not be performed under an adequate system of internal control and may contain errors that impact the District's financial statements, or work may not be performed in accordance with District policy.

Recommendation: The District should implement procedures for the periodic review and evaluation of service providers' internal control, which could include obtaining a Type II SAS 70 report from the provider. In addition, the District should also establish a process to review the policies, procedures, and methods of calculation of depreciation performed by its third party service provider on a regular basis.

View of Responsible Officials: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-21 Construction in Progress (CIP) - Reconciliation

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Per section A.01 of the Michigan Public School Accounting Manual, a school district financial record system should be adequate to provide financial and related operational information for all interested parties; the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. The accounting system should be designed to demand accuracy and a reasonable degree of internal control.

Condition: We noted that the supporting detail for construction in progress provided by the District did not agree to the general ledger control account balance of \$4,669,556 as of June 30, 2008.

Cause: The internal control procedures related to the evaluation and preparation of accounting records are not properly designed. Therefore, the District is unable to reconcile construction in progress and ensure that all construction in progress has been properly recorded.

Effect: Financial statement balances may not properly reflect construction in process, and the lack of reconciliation increases the risk that errors through fraud or defalcation will not be detected.

Recommendation: Policies and procedures regarding periodic reconciliation of the construction in process detail to the general ledger should be established to ensure complete and accurate financial reporting.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-22

Capital Leases

Finding type:

Significant deficiency in internal controls over financial reporting

Criteria:

Transactions and related account balances should be supported by copies of documents such as invoices, contracts, agreements, etc.

Condition:

The District does not retain copies of lease agreements for copier leases.

Cause:

Individuals responsible for contract execution, document retention, and contract maintenance did not follow acceptable methods to ensure that transactions with third parties are based on valid agreements. Individuals responsible for ensuring that accounting entries and disclosures are based on final executed copies of contracts/agreements failed to ensure that executed copies were obtained for accounting purposes.

Effect:

Transactions are being processed without proper documentation. Agreements with third parties should be based on signed contracts or the contracts may not be legally binding. Also, if accounting entries are recorded based on copies that are not signed, then there is a risk that the copy that the accounting entry is based on is not the final version of the agreement.

Recommendation:

Policies and procedures regarding contract management should be reviewed to ensure that they are properly designed to achieve the commercial objectives of the District.

View of
Responsible
Official:

Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-23 Accounts Payable – Individual Schools Cutoff

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Per Michigan Public School Accounting Manual, Section II, Paragraph A.02 (c), expenditures for services are recorded when the services are performed.

Condition: Individual schools pay for athletic services such as coaching and officiating and subsequently request reimbursement for the expenditures from the central office. During our expenditure testing, it was noted that two invoices from an individual school were not correctly included in payables at June 30, 2007 and, therefore, when paid by the District, were improperly recorded as expenditures of fiscal year 2008.

Cause: A lack of defined procedures and oversight over individual schools resulting in a timing delay when forwarding individual schools' invoices and reimbursement requests to the District's central office.

Effect: Understatement of accounts payable for fiscal year ended June 30, 2007 and overstatement of expenditures in fiscal year ended June 30, 2008.

Recommendation: Standard procedures should be drafted and implemented at the individual schools to ensure timely collection of invoices and reimbursement requests from the schools. A monitoring process should be implemented to ensure procedures are followed consistently throughout the District.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-24 Accounts Payable – Manual Accruals

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Manual accruals should be supported by sufficient, appropriate documentation that supports the occurrence of the related expense and its mechanical accuracy; supporting documentation should provide clear and concise evidence for supporting reviews, which should be performed by an appropriate individual.

Condition: Manual accruals are not properly supported by summarizations of the underlying invoices to ensure mechanical accuracy (such as by using a summary spreadsheet). Manual accruals did not always mechanically agree to supporting invoices, nor was evidence present that manual accruals were properly reviewed for mechanical accuracy, and to ensure that the manual accrual did not duplicate amounts already included in accounts payable.

Cause: Inadequate procedures for required supporting summarizations and related review.

Effect: The District was exposed to an increased risk of significant misstatements.

Recommendation: The District should consider utilizing a spreadsheet to total the supporting invoices. This spreadsheet should be retained and attached to the related journal entry.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-25

Payroll – Accounting and Reconciliation

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Sub-ledgers (accrued payroll, withholding accounts, etc.) are reconciled to the general ledger on a monthly basis. Reconciling items are investigated and resolved in a timely manner.

Condition: The District prepared 39 payroll-related reconciliations for the current year. During our walkthrough of this process we noted that reconciling items exist from as far back as fiscal year 2003.

Cause: Reconciling items are not addressed in a timely manner.

Effect: Old reconciling items may represent items requiring adjustment.

Recommendation: Payroll accounting personnel should perform reconciliations on a monthly basis and all reconciling items should be addressed in the same period as the reconciliation. All reconciliations should be signed by both the “Preparer” and “Approver” during the period of reconciliation.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-26 Accrued Payroll – Garnishments

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: One of the key categories of control-related policies and procedures for accounting and financial reporting is the practice of periodic reconciliations of general ledger accounts with supporting detail. It is important that related accounting records be compared on a periodic basis to ensure that financial records are complete and accurate.

Condition: During tests of the garnishment accrual, we noted that a complete and accurate reconciliation between the underlying garnishment supporting documents and the general ledger was not performed. We noted that the unpaid garnishment liability was approximately \$339,655; however, the balance of the general ledger was \$611,489, resulting in an overstatement of \$271,834.

Cause: The internal control procedures related to evaluating and reviewing accrued garnishments is not effective to ensure that the supporting documents and general ledger reconcile.

Effect: The garnishment accrual was overstated.

Recommendation: We recommend that the supporting documents related to the garnishment liability be reconciled to the general ledger on a monthly basis and all differences discovered be investigated and resolved immediately.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-27

Compensated Absences (Repeat)

Finding type:

Significant deficiency in internal controls over financial reporting

Criteria:

Michigan Public School Accounting Manual, Section II, Paragraph A.01, indicates that a school district financial record system should be adequate to provide financial and related operational information for all interested parties: the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. In addition, the accounting system should be designed to demand accuracy and a reasonable degree of internal controls.

Condition:

During tests of the sick and vacation pay accruals, we noted that an incorrect hourly rate was used to calculate the sick pay and vacation pay accrual for five employees. It was also noted that nine employees were improperly included in the vacation accrual.

Cause:

The internal control procedures related to calculating the sick pay and vacation accrual estimates are not properly designed to ensure the completeness and accuracy of the calculations. Additionally, the internal control procedures related to eliminating an employee's vacation bank balance in the event of a vacation payout when an employee switches from a vacation earning position to a non-vacation earning position are not effective.

Effect:

The District was exposed to an increased risk of significant misstatements.

Recommendation:

We recommend that management improve the control activities to ensure the accruals are complete, accurate and reflect properly authorized transactions.

View of
Responsible
Official:

Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-28 **Payroll – Expenditure Processing**

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Evidence should exist supporting management’s review and approval of reports and other documentation in areas including payroll.

Condition: Formal documentation does not exist to support management’s review and approval of the various aspects of the payroll cycle.

Cause: No formal documented review and approval process exists.

Effect: The lack of a formally documented review and approval can result in the processing of payroll without management approval.

Recommendation: Payroll management should implement a formal review and approval process.

View of
Responsible
Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-29 Accounting for Loss Contingencies – Legal Reserve (Repeat)

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Per FASB Statement No. 5, Accounting for Loss Contingencies, when a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote.

Condition: During our evaluation of legal reserves, we noted that upon our initial request for the Litigation Analysis Report, the District did not provide proper documentation of an appropriate accounting assessment of legal reserves in accordance with FASB Statement No. 5.

Cause: The internal control procedures related to evaluating and recording the legal reserve is not properly designed to ensure that all reserves are recorded in accordance with FASB Statement No. 5.

Effect: Reserves were not properly reviewed prior to audit inquiries. Legal reserves could be under- or over-stated due to inappropriate assessment by management. Disclosure for loss contingencies related to legal cases could be inaccurate due to inappropriate assessment by management.

Recommendation: We recommend that management assess contingent liabilities based on the criteria contained in FASB Statement No. 5 and record accounting entries as appropriate.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-30 Workers' Compensation and General Liability

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Per Michigan Public School Accounting Manual, Section II, Paragraph A.01, a school district's financial record system should be adequate to provide financial and related operational information for all interested parties: the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. In addition, the accounting system should be designed to demand accuracy and a reasonable degree of internal controls.

Condition: The data provided by the District to the consulting actuary related to claims and litigation cases covered under the general liability did not allow for historical views of the claims and litigation cases process. Therefore, industry development patterns were applied and relied upon to estimate the general liability accrual. In addition, it was noted that the data provided to the consulting actuary for workers' compensation and general liability claims was incomplete.

Cause: The procedures related to the collection, maintenance, and reporting claims and litigation cases data related to the general liability are inconsistent and are not designed properly to capture and report complete and accurate data necessary for actuarial purposes. In addition, the current specifications for extracting data from the workers' compensation database are not designed properly to provide the consulting actuary with complete information.

Effect: The lack of sufficient and complete data provided to the actuary resulted in an inaccurate estimation of the workers' compensation and general liability accrual.

Recommendation: We recommend that management improve the control procedures to result in a more consistent and thorough collection, maintenance, and reporting of data related to workers' compensation and general liability claims and litigation cases.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-31

Debt

Finding type:

Significant deficiency in internal controls over financial reporting

Criteria:

Per section A.01 of the Michigan Public School Accounting Manual, a school district financial record system should be adequate to provide financial and related operational information for all interested parties; the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. The accounting system should be designed to demand accuracy and a reasonable degree of internal control.

Condition:

We noted that the District received a loan from the United States Environmental Protection Agency in the amount of \$464,294 in 1993. For the last 15 years, the District has failed to record this loan, therefore misstating debt. As of June 30, 2008, the final balance was \$102,996.

Cause:

The internal control procedures related to the evaluation and preparing of accounting records are not properly designed to ensure accuracy and completeness of accounting records and financial statements.

Effect:

The financial statements exclude amounts for debt and related asset or expense accounts.

Recommendation:

Management should improve controls to achieve a more consistent and thorough evaluation of accounting records, which will minimize the likelihood of misstatement.

View of
Responsible
Official:

Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-32 **Miscellaneous Revenue (Repeat)**

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Generally accepted accounting principles in the United State of America require that rebates from vendors and other expense reimbursements be recorded as a reduction of the underlying expenditure.

Condition: During tests of revenue, we noted that rebates from vendors were improperly recorded as revenue. The District’s current accounting practice for vendor rebates is to record them when received as miscellaneous revenue rather than netting the rebates against the related expenditure accounts.

Cause: The established practice of recording rebates as revenue, rather than a reduction in expenses, is not in accordance with GAAP.

Effect: Overstatement of revenues and expenses in the financial statements.

Recommendation: Management of the District should review all of its accounting policies and practices to ensure compliance with GAAP and the Michigan Public School Accounting Manual.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-33 Reconciliation of Property Taxes

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: The District is funded through a combination of State School Aid and local property taxes which makes up the “foundation allowance”. The State share of the revenue is the difference between the foundation allowance and property taxes levied at 18 mills on all non-homestead property in the District. It is calculated by the State of Michigan based on information provided by local taxing authorities and the District.

Condition: Property tax revenue related to collections on the 2007 levy do not reconcile to taxable values reported to the State of Michigan by the County through Form DS-4410-B.

Cause: Information provided to the District by local taxing authorities is not sufficient to determine whether amounts collected and transmitted to the District and amounts reported to the State of Michigan properly reconcile.

Effect: If actual property taxes levied are not equal to amounts reported to the State of Michigan, State Aid revenue provided to the District through the foundation allowance calculation may be inappropriate.

Recommendation: We recommend that the District coordinate with the State of Michigan, Wayne County, the City of Detroit, and all applicable local tax increment financing authorities to ensure that amounts reported to the State and amounts collected and remitted to the District are consistent.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-34 Segregation of Duties – Expenditures (Repeat)

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Per Michigan Public School Accounting Manual, Section V – Internal Controls, Paragraph A.3, the District must have a system that provides for the design, implementation and maintenance of effective control-related policies and procedures. In practice, three types of functions are commonly considered to be mutually incompatible

- Authorization of transactions
- Record-keeping
- Custody of assets

Condition: There is inadequate segregation of duties over the purchase requisition, approval and receiving functions due to certain individuals being authorized to perform these incompatible functions.

Cause: Internal control relating to procurement is not properly designed to provide for adequate segregation of duties over the purchase requisition process.

Effect: The District is at greater risk of inappropriate purchases being made, including fraudulent transactions.

Recommendation: We recommend that the purchase requisition requesting and approval functions be assigned to separate appropriately authorized individuals.

View of Responsible Officials: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-35 Expenditures – Receiving Documents (Repeat)

Finding type:	Significant deficiency in internal controls over financial reporting
Criteria:	Per Michigan Public School Accounting Manual, Section II, Paragraph D.01 (b), approved purchase orders should be used for all purchases in accordance with District policy; receiving documents should be attached to and filed with applicable invoices; and internal controls should exist to prevent duplicate payment of invoices.
Condition:	The District's procurement system is designed to track receiving documents, and to require a three-way match of the receiver, purchase order and invoice before payment is made; however, receiving documents are not retained. Therefore, we were unable to verify that a three-way matching of purchase order, receiving document and invoice occurred prior to disbursing funds.
Cause:	The internal controls over compliance are not designed appropriately to retain third-party receiving documents.
Effect:	The District is at greater risk of inappropriate payments being made, including payments for goods and services never received, or for duplicate payments.
Recommendation:	The District needs to develop a process to retain receiving documents in accordance with document retention requirements.
View of Responsible Official:	Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-36 Expenditures – Transaction Coding (Repeat)

Finding type:	Significant deficiency in internal controls over financial reporting
Criteria:	Per Michigan Public School Accounting Manual, Section II, Paragraph A.01, a school district financial record system should be adequate to provide financial and related operational information for all interested parties: the school board; the administration; the public; auditors; local, state, and federal authorities; and school employees. In addition, the accounting system should be designed to demand accuracy and a reasonable degree of internal controls.
Condition:	During our expenditure testing, we selected a sample of 60 expenditures totaling \$8,987,849. Within our sample, we noted that for 11 expenditures the good or service noted on the invoice did not correlate to the trial balance account description.
Cause:	Individuals responsible for affixing account codes to requisitions, purchase orders, and invoices do not always use the correct account codes. In addition, the District has an ineffective review of account coding.
Effect:	Using incorrect expenditure account codes can result in misclassifications in the financial statements and erroneous budgetary reports.
Recommendation:	Regular training of staff in the use of accounting codes and periodic review is necessary.
View of Responsible Official:	Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-37 IT General Controls – Program Change – Access to Libraries (Repeat)

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Change controls related to all aspects of the technical environment provide reasonable assurance that system changes of financial reporting significance are authorized and appropriately tested before being moved to production. Managing changes addresses how an organization modifies system functionality to help the organization meet its financial reporting objectives. Controls are in place to restrict migration of programs to production by authorized individuals only.

Condition: During our analysis of IT program change controls, we noted that access to production application libraries is not appropriately restricted. Developers have access to PeopleSoft HR / Financials application shares. Additionally, “everyone” has “change access” to some of the production application shares.

Cause: Inadequate internal control procedures over program changes and access to production libraries.

Effect: Unauthorized modification of production libraries could result in incorrect processing of financial information. In addition, there could be loss or disclosure of sensitive and/or confidential information.

Recommendation: Access to production programs, directories, and libraries should be restricted based on a demonstrated business need. Developers and/or Data Center personnel should not have the ability to update or modify the production environment.

View of Responsible Officials: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-38 IT General Controls – Physical Access to Data Center (Repeat)

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Controls provide reasonable assurance that financial reporting systems and subsystems are appropriately secured to prevent unauthorized use, disclosure, modification, damage or loss. Managing systems security includes both physical and logical controls that prevent unauthorized access. Access to facilities is restricted to authorized personnel and requires appropriate identification and authentication.

Condition: During our analysis of Data Center Physical Access, we noted that there was no procedure or process in place for a periodic review to ensure that individuals with access to the Data Center continue to have a business need for such access.

Cause: Inadequate design of internal control to periodically review physical access permissions to the data center.

Effect: Inappropriate access to the Data Center could result in physical loss and/or damage to hardware and network connections causing a significant disruption of service. Further, the disclosure or loss of all data residing on existing hardware could occur.

Recommendation: A procedure should be formalized and a process instituted to require review of individuals with access to the Data Center and any discrepancies should be addressed in a timely manner.

View of Responsible Officials: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-39 IT General Controls – Inappropriate Contractor Access to Systems (Repeat)

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Controls should provide reasonable assurance that financial reporting systems and subsystems are appropriately secured to prevent unauthorized use, disclosure, modification, damage or loss. Procedures should exist and be followed relating to timely action for requesting, establishing, issuing, suspending and closing user accounts.

Condition: During our testing of IT access controls, we noted that a process is not in place to ensure that system access for District contractors that leave the organization is disabled and removed in a timely manner. We noted that some of the UNIX user accounts belong to contractors who no longer work for the District or do not require such access.

Cause: No procedure was in place to review UNIX system access.

Effect: Failure to remove obsolete IDs on a timely basis increases the risk of unauthorized access to information, as well as the potential for loss or manipulation of such information.

Recommendation: A process should be put in place to ensure that system access be reviewed quarterly for removal and/or disabling in a timely manner for individuals without a demonstrated business need. In addition, a record of review should be retained for audit review.

View of Responsible Officials: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-40 IT General Controls – Direct Update Access to PeopleSoft (Repeat)

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Controls provide reasonable assurance that financial reporting systems and subsystems are appropriately secured to prevent unauthorized use, disclosure, modification, damage or loss. A control process exists and is followed to periodically review and confirm access rights.

Condition: Prior year comment 2007-41 noted that one Oracle Database user account had update access to critical PeopleSoft Financial tables. We noted from review of the Oracle IDs for both PeopleSoft Financial and Human Capital Management that there were two user IDs that had update capability. Four of the IDs are shared, one of which has update capability, resulting in loss of individual accountability.

Cause: The capability to modify PeopleSoft tables directly is not restricted.

Effect: Direct update access to critical PeopleSoft tables increases the risk of unauthorized database changes. Further, direct database updates increase the risk of loss of database referential integrity.

Recommendation: All IDs not essential for PeopleSoft productive operations should be removed. Direct modification of PeopleSoft tables should be limited to authorized Database Administrators. Use of powerful IDs should be limited, authorized and monitored.

View of Responsible Officials: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-41 IT General Controls – Domain Administration Access (Repeat)

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Controls should provide reasonable assurance that financial reporting systems and subsystems are appropriately secured to prevent unauthorized use, disclosure, modification, damage or loss. Procedures should exist and be followed relating to timely action for requesting, establishing, issuing, suspending and closing user accounts.

Condition: Prior year comment 2007-42 noted that inappropriate job classifications had domain administration capabilities, and that the “Administrator” ID had not been renamed. We reviewed the list of domain administrators and found that the “Administrator” ID is still in use.

Cause: Inadequate internal control to restrict assets to only authorized users.

Effect: Use of the default “Administrator” ID increases the risk of unauthorized access to information used to prepare the District’s financial statements.

Recommendation: The default “Administrator” ID should be renamed.

View of Responsible Officials: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-42	IT General Controls-Access Review – Segregation of Duties (Repeat)
Finding type:	Significant deficiency in internal controls over financial reporting
Criteria:	Controls provide reasonable assurance that financial reporting systems and subsystems are appropriately secured to prevent unauthorized use, disclosure, modification, damage or loss. Controls relating to appropriate segregation of duties relating to granting access to data across multiple applications exist and are followed.
Condition:	Prior year comment 2007-43 noted that a detailed segregation of duties review process is not in place for PeopleSoft. We reviewed the PeopleSoft Security Manual and implementation of the PeopleSoft application security. We found that there still is not a comprehensive process in place to determine that access to transactions is granted based on management criteria and good business practice.
Cause:	There is no process in place to assess access based on the concept of segregation of duties.
Effect:	Users could be granted inappropriate access that could result in unauthorized system activity and increase risk for fraudulent transactions.
Recommendation:	We recommend that management create a formal Segregation of Duties Matrix, considering all PeopleSoft transactions or roles, which would identify potential conflicting roles and would identify when inappropriate access was requested. The matrix should be reviewed on a periodic basis to ensure compliance and to monitor for individuals with conflicting roles.
View of Responsible Officials:	Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-43 IT General Controls – Inadequate Security Settings (Repeat)

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Controls should provide reasonable assurance that financial reporting systems and subsystems are appropriately secured to prevent unauthorized use, disclosure, modification, damage or loss. Procedures should exist and be followed to maintain the effectiveness of authentication and access mechanisms.

Condition: During our tests of IT access controls, we noted that default security settings for the UNIX PeopleSoft HR/Financials Database servers were inadequate. Password aging, account lockout, and password complexity settings have not been enabled, and we were informed that the Solaris Operating system currently in production use does not support password settings of this nature.

Cause: The District's system lacks the capabilities to support password aging, account lockout and password complexity.

Effect: Lack of appropriate password controls increases the risk of unauthorized system access through password guessing or hacking.

Recommendation: Password control settings for the UNIX systems should be strengthened to include aging, lockout, and complexity, etc.

View of Responsible Officials: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-44 **IT General Controls – Security Access**

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Procedures exist and are followed relating to timely action for requesting, establishing, issuing, suspending and closing user accounts, including procedures for authenticating transactions originating outside the organization.

Condition: During our IT controls review we found that requests for access to either AssetMaxx or the Workers Compensation System were being reviewed by District personnel prior to requests being sent to the service provider. However, the process for access approval for either system was not documented nor did we find any process for access modification or removal. In addition, in neither case was there a process to perform a periodic review of access rights.

Cause: The District does not have a documented process for the creation, modification, deletion, or periodic review of user access to AssetMaxx or the Workers Compensation system.

Effect: Deficiencies in this area could significantly impact financial reporting. For instance, insufficient controls over transaction authorization may result in inaccurate financial reporting.

Recommendation: The District should document the process of creation, modification, and deletion of user accounts to AssetMaxx and the Workers Compensation System. This process should include a periodic review of all user access to these systems. Records of review should be maintained.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-45

IT General Controls – Network Access Review

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Procedures should exist and be followed relating to timely action for requesting, establishing, issuing, suspending and closing user accounts including procedures for authenticating transactions originating outside the organization.

Condition: During IT controls review, we did not find a process to perform a periodic review of network access rights.

Cause: The District does not have a documented process for the periodic review of access rights.

Effect: Deficiencies in this area could significantly impact financial reporting. For instance, insufficient controls over transaction authorization may result in inaccurate financial reporting.

Recommendation: The District should document and perform a periodic review of all user access to the network. Records of review should be maintained.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-46 IT General Controls – Access to Software Code

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Controls should provide reasonable assurance that all IT components, as they relate to security and processing, are well protected, would prevent any unauthorized changes, and assist in the verification and recording of the current configuration. Configuration management includes procedures such that security and processing integrity controls are set up in the system and maintained through its life cycle.

Condition: The District uses PeopleSoft Version 8 and access to the source code for the installed software is not adequately restricted. Updates are received directly from PeopleSoft, which contain COBOL source to be compiled for installation.

Cause: Inadequate design of access controls to protect COBOL and SQR+ code left on servers.

Effect: Insufficient configuration controls can lead to security exposures that may permit unauthorized access to systems and data that impact financial reporting. An additional potential risk is corruption to data integrity caused by poor control of the configuration when making system changes or by the introduction of unauthorized system components.

Recommendation: Procedures should be developed to ensure that all COBOL and SQR+ code received from the vendor are protected from unauthorized disclosure, update or deletion.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-47

IT General Controls – Restore from Backup

Finding type:

Significant deficiency in internal controls over financial reporting

Criteria:

Controls should provide reasonable assurance that data recorded, processed and reported remain complete, accurate, and valid throughout the update and storage process. Managing data includes the controls and procedures used to support information integrity, including its completeness, accuracy, authorization and existence. Controls are designed to support initiating, recording, processing and reporting financial information.

Condition:

No formal procedure exists for testing restorability of backed up files; however, backup media is used by the District to restore files on an as required basis when requested by user management. Restores from backup data have been performed in the last quarter.

Cause:

Procedures for testing backup media do not exist.

Effect:

The District may not be able to obtain needed historical financial data for financial reporting should a system failure requiring restoration of backed up data occur.

Recommendation:

The District should develop procedures for the periodic testing of backup media.

View of
Responsible
Official:

Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-48

IT General Controls – Authentication Mechanism

Finding type:

Significant deficiency in internal controls over financial reporting

Criteria:

Controls should provide reasonable assurance that financial reporting systems and subsystems are appropriately secured to prevent unauthorized use, disclosure, modification, damage or loss. Managing systems security includes both physical and logical controls that prevent unauthorized access. These controls typically support authorization, authentication, nonrepudiation, data classification and security monitoring.

Condition:

During our analysis of general IT controls, it was observed that all users must have logon credentials to gain access to the District's domain. Examination of LDAP IDs showed some appear to be shared. In addition, it was observed that there was an account in the Domain Administrator group that is not assigned to an individual.

Cause:

Authentication policies for the District's managed systems and applications do not conform to best practices.

Effect:

Unauthorized access may occur, or the District may not be able to determine the actual individual who accessed systems in the event of an unauthorized access.

Recommendation:

Shared IDs should be eliminated, and all accounts should be assigned to specific users.

View of
Responsible
Official:

Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-49

IT General Controls – Review of Access Logs

Finding type:

Significant deficiency in internal controls over financial reporting

Criteria:

Controls should provide reasonable assurance that financial reporting systems and subsystems are appropriately secured to prevent unauthorized use, disclosure, modification, damage or loss. Managing systems security includes both physical and logical controls that prevent unauthorized access. These controls typically support authorization, authentication, nonrepudiation, data classification and security monitoring.

Condition:

During our review of IT general controls, we found that there is no periodic review of PeopleSoft access logs.

Cause:

The District does not have a documented process to review access logs.

Effect:

Unauthorized access may not be detected in a timely manner.

Recommendation:

The District should establish and follow a process to perform a periodic review of security access logs on the PeopleSoft system.

View of
Responsible
Official:

Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-50 **IT General Controls – Program Change Testing (Repeat)**

Finding type: Significant deficiency in internal controls over financial reporting

Criteria: Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity’s objectives. Control activities occur throughout the organization at all levels and in all functions, including information technology (IT). They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

Condition: We selected 29 program change requests, composed of both emergency and non-emergency changes, and noted no indication of testing on six changes. Further, eight of the 29 did not have a completed date on the change document.

Cause: The District has inadequate testing procedures and did not follow procedures to appropriately document formal approval for changes.

Effect: Improper changes could result in information being improperly processed and recorded in the financial statements.

Recommendation: We recommend that all changes be tested and properly approved prior to implementation. Testing and approval details should be retained with the formal change document.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-51 Durant Fund Expenditures – General Fund (Repeat)

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Criteria: Per Michigan Compiled Laws: MCL 388.1611f lists the limitations as to the use of Durant funds received. Durant funds may be used for textbooks, electronic instructional material, software, technology, infrastructure or infrastructure improvements, school buses, school security, training for technology, early intervening program described in section (8), or to pay debt service on voter improved bonds issued by the district or intermediate district before the effective date of this section.

Condition: During our test of Durant expenditures, we selected 38 invoices totaling \$2,005,409. Within our sample, we noted that 13 invoices totaling \$338,454 were paid with Durant funds that were not specifically allowable under Michigan Compiled Laws, MCL 388.1611f.

Cause: The internal controls were not properly designed to prevent the use of restricted funds for only their intended purposes due to ineffective management review.

Effect: Durant funds were not used for their intended purpose.

Recommendation: We recommend that management improve the control procedures to result in a more consistent and thorough evaluation of procurements and expenditures. Management should develop, update, and implement policies and procedures to ensure that procurement of materials and services are properly evaluated to ensure that an appropriate funding source is available for use and that expenditures are correctly charged to the proper budget categories. All employees should be made aware of the contracting, procurement, and budget policies to ensure that they will be followed.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Continued)

2008-52 Durant Fund Expenditures – Bond Fund

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Criteria: Per Michigan Compiled Laws: MCL 380.1372 and MCL 380.1351a lists the limitations as to the use of Durant funds received. The requirements for an audit of a Durant bond construction fund is substantially the same as the construction fund audit for other constructions funds of the school district.

Condition: During our tests of the Durant expenditures, we selected 14 invoices totaling \$222,972. Within our selection, we noted that three (3) invoices totaling \$54,388 were paid with Durant funds, which were not specifically allowable under Michigan Compiled Laws, MCL 380.1372 and MCL 380.1351a.

Cause: The internal controls were not properly designed to prevent the use of restricted funds for only their intended purposes due to ineffective management review.

Effect: Durant funds were not used for their intended purpose.

Recommendation: We recommend that management improve the control procedures to result in a more consistent and thorough evaluation of procurements and expenditures. Management should develop, update, and implement policies and procedures to ensure that procurement of materials and services are properly evaluated to ensure that an appropriate funding source is available for use and that expenditures are correctly charged to the proper budget categories. All employees should be made aware of the contracting, procurement, and budget policies to ensure that they will be followed.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – Financial Statement Findings (Concluded)

2008-53 Salary Expenditures – Bond Fund

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Criteria: Per the Revised School Code MCL.380.1274, bond proceeds may only be used for capital expenditures and bond issuance costs and are not allowed to be used for salaries. Furthermore, standard ballot language for qualified bond elections typically references the following statement, *“Pursuant to State law, expenditure of bond proceeds must be audited and the proceeds cannot be used for repair or maintenance costs, teacher, administrator or employee salaries or other operating expenses.”* However, to the extent that a full time employee’s responsibilities are solely related to the bond issue and that the services performed are typically done by outside contractors, the state Treasury does not object to financing certain limited salaries with qualified bond proceeds.

Condition: During our tests of bond expenditures, we noted that three salaries were being inappropriately charged against the bond proceeds. Though all three individuals have responsibilities related to the bond, each also performs other job functions that are separate from the bond, thus making the expenditure unallowable.

Cause: The District has not obtained an opinion from bond counsel clarifying whether the District may expend bond proceeds for salary related expenses.

Effect: The terms of bond agreements may not be complied with, resulting in the inability to obtain future bonds.

Recommendation: We recommend that the bond counsel issue an opinion clarifying the qualifications to expend qualified salaries through the bond.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards

2008-54 Allowable Costs/Cost Principles – Fringe Benefits (Repeat)

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Title II, Part A (CFDA# 84.367)
21st Century (CFDA# 84.287) Reading First (CFDA# 84.357)
Career & Technical Education (CFDA# 84.048) Head Start (CFDA# 93.600)
Special Education Cluster (CFDA# 84.027 & 84.173)

Questioned cost: Not readily determinable

Criteria: In accordance with the District's policy and per discussion with management, Medical Insurance Premiums should not be calculated based on any secondary job held by an employee, but should be charged 100% to the employee's primary position.

Condition: During the year, the District's accounting software allocated health insurance premiums to all employee activities. To correct this practice, management prepared a journal entry to reclassify expenditures to the employee's primary position; however, during our testing we noted multiple instances where an adjustment should have been made to individuals that were not included in the entry to move expenditures. In addition, we noted that no entry was performed for the two final payroll periods of the fiscal year.

Cause: The District's internal controls over the fringe benefit entry were not sufficient to ensure that all applicable charges were corrected as required.

Effect:

- Title I, Part A – 9 out of 27 employees who had Health Insurance Premiums spread to nonprimary job codes were not included in the correcting entry.
- Special Ed – 3 out of 17 employees who had Health Insurance Premiums spread to nonprimary job codes were not included in the correcting entry.
- 21st Century – 5 out of 62 employees who had Health Insurance Premiums spread to nonprimary job codes were not included in the correcting entry.
- Career & Tech – 14 out of 24 employees who had Health Insurance Premiums spread to nonprimary job codes were not included in the correcting entry.

Recommendation: We recommend the District properly configure the accounting system to ensure that the Health Insurance Premium entry includes all individuals and pay periods.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-55 Allowable Costs/Cost Principles – 26 Pay Accrual

Finding type: Noncompliance; Material weakness in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Title II, Part A (CFDA# 84.367)
21st Century (CFDA# 84.287) Reading First (CFDA# 84.357)
Career & Technical Education (CFDA# 84.048) Head Start (CFDA# 93.600)
Special Education Cluster (CFDA# 84.027 & 84.173)

Questioned cost: ➤ Title I, Part A – \$1,367 ➤ Special Ed Cluster – \$2,995
➤ Title II, Part A – \$7,778

Criteria: OMB Circular A-133 requires charges to federal programs to be for actual services performed for the federal cost objective.

Condition: When making its 26 pay accrual entry, the District did not take into consideration any employees who changed job responsibilities during the year.

Cause: The District's internal controls over the 26 pay accrual process charges 100% of the accrual to the employees final position and does not take into consideration any changes during the year.

Effect: ➤ Title I, Part A – 1 of the 12 employees tested changed positions during the year which was not reflected in the 26 pay accrual entry.
➤ Special Ed Cluster – 1 of the 12 employees tested changed positions during the year which was not reflected in the 26 pay accrual entry.
➤ Title II, Part A – 4 of the 12 employees tested changed positions during the year which was not reflected in the 26 pay accrual entry.

Recommendation: We recommend the District properly configure the accounting system to ensure that the 26 payroll accrual entry take into consideration any changes in employee job codes during the year.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-56

Allowable Costs/Cost Principles – Payroll Certifications and PARs

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Head Start (CFDA# 93.600)
Reading First (CFDA# 84.357)

Questioned cost: ➤ Title I, Part A – \$3,416 ➤ Head Start – \$4,867
➤ Reading First – \$878 ➤ Title II, Part A – \$3,276

Criteria: Per OMB Circular A-87, the District is required to support payroll charges to federal cost objectives with semi-annual payroll certifications for employees charged 100% to a single cost objective and with personnel activity reports for those who split their time between multiple cost objectives.

Condition: The District supplied certifications and personnel activity reports that did not meet the requirements of OMB Circular A-87. Certifications were provided for employees who worked on multiple cost objectives, and personnel activity reports were not properly documented as required by OMB Circular A-87.

Cause: The District's internal controls are not designed to ensure that the required payroll documentation is prepared and retained.

Effect: ➤ Title I, Part A – 2 out of 109 employees had a certification for a grant different than the one to which the employee was charged.
➤ Reading First – 2 out of 60 employees had multiple 100% certifications.
➤ Head Start – 2 out of 60 employees had certifications but worked on multiple cost objectives.
➤ Head Start – 1 out of 60 employees had a personnel activity report that did not meet the criteria of OMB circular A-87.
➤ Title II, Part A – 1 out of 80 employees had a personnel activity report that did not meet the criteria of OMB circular A-87.

Recommendation: We recommend the District modify its procedures to ensure that expenditures charged to federal programs are properly approved and documented before being expended.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-57 Allowable Costs/Cost Principles – Payroll Certifications - Preparation

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Title II, Part A (CFDA# 84.367)
21st Century (CFDA# 84.287) Head Start (CFDA# 93.600)
Career & Technical Education (CFDA# 84.048)
Special Education Cluster (CFDA# 84.027 & 84.173)

Questioned cost: ➤ Title I, Part A – \$106,674 ➤ Career & Tech – \$63,560
➤ Head Start – \$53,136 ➤ Title II, Part A – \$28,606
➤ 21st Century – \$11,560 ➤ Special Ed Cluster – \$14,089

Criteria: Per the Circular A-87, the District is required to support payroll charges to federal cost objectives with semi-annual payroll certification for employees charged 100% to a single federal cost objective and with personnel activity reports for those who split their time between multiple cost objectives.

Condition: We noted that multiple certifications used as support for payroll charges were prepared after being requested by the audit team.

Cause: The District's internal controls are not designed to ensure that the required payroll documentation is prepared and retained in support of all federal program payroll charges.

Effect: ➤ Title I, Part A – 86 out of 109 certifications were prepared after requested
➤ 21st Century – 31 out of 66 certifications were prepared after requested
➤ Career & Tech – 45 out of 60 certifications were prepared after requested
➤ Title II, Part A – 14 out of 80 certifications were prepared after requested
➤ Head Start – 50 out of 60 certifications were prepared after requested
➤ Special Ed – 13 out of 74 certifications were prepared after requested

Recommendation: We recommend the District modify its procedures to ensure that expenditures charged to federal programs are properly approved and documented before being expended.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-58 Allowable Costs/Cost Principles – Payroll Documentation – Availability (Repeat)

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Title II, Part A (CFDA# 84.367)
21st Century (CFDA# 84.287) Head Start (CFDA# 93.600)
Career & Technical Education (CFDA# 84.048)
Special Education Cluster (CFDA# 84.027 & 84.173)

Questioned cost: ➤ Title I, Part A – \$2,717 ➤ Career & Tech – \$1,493
➤ Special Ed Cluster – \$14,207 ➤ Title II, Part A – \$48,571
➤ 21st Century – \$13,231 ➤ Head Start – \$1,672

Criteria: Per OMB Circular A-87, the District is required to support payroll charges to federal cost objectives with semi-annual payroll certifications for employees charged 100% to a single federal cost objective and with Personnel Activity Reports for those who split their time between multiple cost objectives.

Condition: Multiple payroll charges were not adequately supported with required semi annual payroll certifications or personnel activity reports.

Cause: The District's internal controls are not designed to ensure that the required payroll documentation is prepared and retained.

Effect: ➤ Title I, Part A – Documentation for 8 out of 109 items were not available
➤ Special Ed – Documentation for 13 out of 74 items were not available
➤ 21st Century – Documentation for 30 out of 66 items were not available
➤ Career & Tech – Documentation for 2 out of 60 items were not available
➤ Title II, Part A – Documentation for 27 out of 80 items were not available
➤ Head Start – Documentation for 3 out of 60 items were not available

Recommendation: We recommend the District modify its procedures to ensure that expenditures charged to federal programs are properly approved and documented before being expended.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-59 Allowable Costs/Cost Principles – Adequate Voucher Documentation (Repeat)

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010)
Career & Technical Education (CFDA# 84.048)

Questioned cost: ➤ Title I, Part A –\$4,817 ➤ Career & Tech –\$42

Criteria: Per OMB Circular A-133 Compliance Supplement, expenditures should be for actual costs that are adequately documented.

Condition: The District had multiple disbursement transactions charged to federal programs that were not for actual costs and/or not adequately documented.

Cause: Management has not implemented adequate internal controls to ensure that disbursements charged to federal grant programs are for actual costs incurred and are adequately documented.

Effect: ➤ Title I, Part A – 2 out of 60 transactions were not for actual charges or adequately documented.
➤ Career & Tech – 1 out of 60 transactions were not for actual charges or adequately documented.

Recommendation: We recommend the District modify its procedures to ensure that expenditures charged to federal programs are for actual costs incurred and are adequately documented.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-60

Allowable Costs and Cost Provisions – Indirect Costs

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Title II, Part A (CFDA# 84.367)

Questioned cost: Not readily determinable

Criteria: Code of Federal Regulations part 34 §76.569 requires that grantees exclude distorting or unallowable items as specified in the grantee's indirect cost rate agreement. The Michigan School Auditing Manual specifies that for expenditures related to contracts exceeding \$25,000, the amount over \$25,000 must be excluded from the direct cost base that is used to calculate indirect costs.

Condition: The District did not take into consideration contracted amounts exceeding \$25,000 when calculating its indirect costs reported to the Michigan Department of Education.

Cause: The District was unaware of the requirement to subtract these costs.

Effect: The District charged excess indirect costs to these federal programs.

Recommendation: We recommend that the District adopt appropriate procedures to calculate indirect costs based on the Code of Federal Regulations and the guidance found in the Michigan School Auditing Manual.

View of Responsible Official: Management agrees with the finding. However, the District was using the MDE calculation which was not changed to reflect this requirement until May 2008. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-61 Allowable Costs/Cost Principles – Adequate Voucher Documentation (Repeat)

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Title II, Part A (CFDA# 84.367)
Head Start (CFDA# 93.600)
Title V (CFDA# 84.298)

Questioned cost: ➤ Title II, Part A –\$582 ➤ Title V –\$3,328
 ➤ Head Start –\$1,050

Criteria: Per OMB Circular A-133 Compliance Supplement, expenditures should be for actual costs that are adequately documented.

Condition: The District had multiple disbursement transactions charged to federal programs that were not for actual costs and/or not adequately documented.

Cause: Management has not implemented adequate internal controls to ensure that disbursements charged to federal grant programs are for actual costs incurred and are adequately documented.

Effect: ➤ Title II, Part A – 1 out of 25 transactions was not for actual charges or adequately documented.
 ➤ Head Start – 6 out of 61 transactions were not for actual charges or adequately documented.
 ➤ Title V – 1 out of 9 transactions was not for actual charges or adequately documented.

Recommendation: We recommend the District modify its procedures to ensure that expenditures charged to federal programs are for actual costs incurred and are adequately documented.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-62 **Cash Management – Request Methodology & Supervisory Review (Repeat)**

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Title II, Part A (CFDA# 84.367)
21st Century (CFDA# 84.287) Reading First (CFDA# 84.357)
Career & Technical Education (CFDA# 84.048)

Criteria: The Michigan School Auditing Manual indicates that local education agencies may request a cash advance for an amount not to exceed three days cash needs.

Condition: The District modified its cash request methodology multiple times during the year, in an attempt to comply with the Michigan School Auditing Manual guidelines. However, during our testing of these methodologies it did not appear that the District was accurately calculating cash needs until February 2008.

In addition to the inadequate methodologies used during the year, we noted instances where the reports supplied as backup for the cash requests did not match the amounts used to calculate the request. This is indicative of an ineffective review process.

Cause: The District had not designed a procedure that adequately calculated three days cash needs until February 2008. In addition the review process was ineffective in identifying calculation and other errors occurring during the cash request process.

Effect: The District had multiple instances during the year where the methodology or calculation errors resulted in requests being made that exceeded three days cash needs.

Recommendation: We recommend that the District modify its procedures to ensure that the method used to determine cash requests is adequate and accurate in determining three days cash needs.

View of
Responsible
Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-63 **Eligibility – School Attendance Areas or Schools**

Finding type: Significant deficiency in internal controls over compliance

Federal award year: Title I, Part A (CFDA# 84.010)

Criteria: Per OMB Circular A-133, the District is required to have adequate controls in place to facilitate compliance with regulations, grants, and contracts. The District is also required to maintain documentation supporting the percentage of poverty by location used to determine if a school is eligible to receive Title I funds.

Condition: We noted that the report used to calculate the poverty percentage did not agree to the poverty percentages reported to the Michigan Department of Education.

Cause: The District did not have a system of controls in place to ensure that the poverty percentages were correctly calculated and documented with support for the numbers used.

Effect: For 18 of the 20 schools tested, the poverty percentage reported to the Michigan Department of Education did not match the supporting documentation retained by the District.

Recommendation: We recommend that the District adopt policies and procedures to ensure that the poverty percentages by individual school are correctly calculated and reported to the Michigan Department of Education.

View of
Responsible
Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-64 Eligibility – Students in Targeted Assistance Programs

Finding type: Significant deficiency in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010)

Criteria: Per OMB Circular A-133, the District is required to have adequate controls over the selection of students to be served under targeted assistance programs. Eligible students should be identified on the basis of multiple, educationally related, objective criteria.

Condition: We noted support for eligibility of students was not available.

Cause: The District's internal control process was not sufficient in retaining the documentation to support eligibility for selected students.

Effect: The District was unable to provide documentation of eligibility for 2 of the 71 students selected for testing.

Recommendation: We recommend that the District obtain and retain the documentation supporting eligibility for those students selected to be served under a Title I targeted assistance program.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-65 Equipment and Real Property Management – Physical Inventory (Repeat)

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Head Start (CFDA# 93.600)
Career & Technical Education (CFDA# 84.048)
Special Education Cluster (CFDA# 84.027 & 84.173)

Criteria: The A-102 Common Rule requires that equipment purchased with Federal awards be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition: No physical inventory was taken for equipment during the past two years. As a result, the asset list does not accurately reflect a current accounting of the equipment held at fiscal year end.

Cause: The District did not contract with its third party provider in a timely fashion to allow for a complete physical inventory of capital assets.

Effect: The District is unable to provide a reliable listing of equipment purchased with Federal awards held at the end of the fiscal year.

Recommendation: We recommend that the District implement a policy to perform physical inventory on equipment at a minimum once every two years. In addition, we recommend that the District implement procedures to accurately identify and record additions and disposals of capital assets to provide an accurate list of all capital assets held at the end of the fiscal year.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-66	Matching, Level of Effort, Earmarking – Proportionate Share Calculation
Finding type:	Noncompliance; Significant deficiency in internal controls over compliance
Federal program(s):	Special Education Cluster (CFDA# 84.027 & 84.173)
Criteria:	The Michigan School Auditing Manual requires the District to compute its proportionate share requirement in accordance with the example in Appendix B of the IDEA 2004 final regulations.
Condition:	The District was unable to provide a copy of its computation of the proportionate share requirements for the fiscal year ended June 30, 2008.
Cause:	Inadequate design of internal controls related to this compliance requirement.
Effect:	The proportionate share requirement was not calculated by the District.
Recommendation:	The District should develop and implement control procedures to ensure that its calculation of proportionate share requirements follows the example in Appendix B of the IDEA 2004 final regulations and that copies of the calculation are maintained and are accessible by appropriate District personnel.
View of Responsible Official:	Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-67 Matching, Level of Effort, Earmarking – Proportionate Share Expenditures

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Special Education Cluster (CFDA# 84.027 & 84.173)

Criteria: The Michigan School Auditing Manual requires the District to expend a proportionate amount of its Sections 611 and 619 funds on parentally placed children with disabilities in non-public schools.

Condition: The District does not account for “proportionate-share” expenditures separately from other program expenditures.

Cause: Inadequate design of internal controls related to this compliance requirement.

Effect: The District is not able to determine the amount expended for “proportionate share” activities and is therefore unable to determine whether it has complied with the provisions of this requirement.

Recommendation: The District should develop and implement control procedures to ensure that it expends a proportionate amount of its Sections 611 and 619 funds on parentally placed children with disabilities in non-public schools.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-68

Matching – Matching In-Kind Contributions

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Head Start (CFDA# 93.600)

Questioned cost: \$60,643

Criteria: OMB Circular A-87 indicates that charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, should be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency.

Condition: The amount of the in-kind match reported for the disabilities support activity of this program was based on percentages of budgeted salaries, wages and fringe benefits and is not supported by personnel activity reports or equivalent documentation.

Cause: The District's control procedures related to this requirement do not require that amounts reported as in-kind salaries, wages and fringe benefits be supported by documentation other than the award budget.

Effect: \$60,643 of in-kind salaries was recorded as matching funds without proper payroll documentation.

Recommendation: The District should develop and implement internal control procedures to ensure that charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, are supported by personnel activity reports or equivalent documentation.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-69

Period of Availability – Payroll and Voucher Transactions (Repeat)

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) 21st Century (CFDA# 84.287)
Career & Technical Education (CFDA# 84.048)

Questioned cost: ➤ Title I ,Part A –\$392 ➤ Career & Tech –\$524
➤ 21st Century –\$2,801

Criteria: Per OMB Circular A-133 Compliance Supplement, expenditures should be charged to the period in which they are obligated.

Condition: The District had multiple payroll and voucher transactions that were not charged in the period in which they were obligated.

Cause: Management has not implemented adequate internal controls to ensure expenditures are charged to the proper grant period.

Effect: ➤ Title I, Part A – 1 of 60 payroll items tested was charged to the wrong period
➤ Career & Tech – 1 of 60 payroll items tested was charged to the wrong period
➤ 21st Century – 2 of 66 payroll items tested were charged to the wrong period
➤ Title I, Part A – 2 of 60 voucher items tested were charged to the wrong period
➤ 21st Century – 1 of 67 voucher items tested was charged to the wrong period

Recommendation: We recommend the District modify its procedures to ensure that expenditures are charged to the period in which the expenditures are obligated.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-70 Period of Availability – Reimbursement Requests

Finding type: Material weakness in internal controls over compliance

Federal program(s): Head Start (CFDA# 93.600)

Questioned cost: \$164,477

Criteria: Amounts reported as federal award expenditures should only include expenditures that were incurred within the period of availability. The federal award year for this project began on November 1, 2007.

Condition: In February 2008, the District submitted a single reimbursement request for the project months of November 2007 through January 2008. The amount requested for reimbursement included costs that were incurred in August 2007. The costs that were incurred in August 2007 and reported as expenditures of the 2007/08 program year do not represent federal award expenditures that were incurred within the program's period of availability.

Cause: The District's control procedures related to this requirement were not sufficient to prevent and detect the August 2007 expenditures from being reported as 2007/08 program costs.

Effect: The District reported (and was reimbursed for) expenditures that were not incurred within the period of availability. However, the District did incur program costs later in the year that were not reported (reimbursed) because the District already incurred expenditures in excess of the grant award. The District subsequently incurred "stand-in" costs that could have been reported in place of the August 2007 costs but were not.

Recommendation: The District should implement changes to existing control procedures to ensure that amounts reported for reimbursement are a true and accurate representation of expenditures for the project.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-71 Procurement – Approvals (Repeat)

Finding type: Material weakness in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Title II, Part A (CFDA# 84.367)
21st Century (CFDA# 84.287) Reading First (CFDA# 84.357)
Career & Technical Education (CFDA# 84.048) Head Start (CFDA# 93.600)

Criteria: Per OMB Circular A-133 Compliance Supplement, the District is required to maintain adequate internal controls over Federal, State and contractual requirements for grant funds.

Condition: The District did not follow its own approval procedures for grant expenditures.

Cause: The District's internal controls are not designed to ensure that every step in the control process is followed every time.

Effect: 4 out of the 60 disbursements selected for testing were not approved as required before grant funds were expended.

Recommendation: We recommend the District modify its procedures to ensure that expenditures charged to federal programs are properly approved before being expended.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-72 Procurement – Open Competition (Repeat)

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Reading First (CFDA# 84.357)
Career & Technical Education (CFDA# 84.048) Head Start (CFDA# 93.600)
Special Education Cluster (CFDA# 84.027 & 84.173)

Criteria: Per OMB Circular A-133 Compliance Supplement, Common Rule A-102, and the District's procurement policy, each procurement must have supporting documentation to support the following: solicitation, history of the procurement, method of procurement, selection of contract type, contractor selection or rejection, basis of contract price, full and open competition, rationale to limit competition, and appropriate cost or price analysis.

Condition: The District did not maintain the documentation required for each contract selected for testing.

Cause: The District was not aware that the procurement requirements were applicable to professional contracted services.

Effect:

- Head Start – 1 out of 2 contracts tested did not include required documentation.
- Reading First – 5 out of 12 contracts did not include required documentation.
- Special Education – 1 out of 4 contracts did not include required documentation.
- Title I, Part A – 5 out of 31 contracts did not include required documentation.
- Career and Tech – 1 out of 2 contracts did not include required documentation.

Recommendation: We recommend that the District modify its procedures to ensure that all supporting documentation is maintained as evidence that contracts undergo the proper procurement process.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-73

Procurement – Contractual Period of Effect

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010)
Special Education Cluster (CFDA# 84.027 & 84.173)

Criteria: The District requires purchases of materials and supplies expected to be over \$15,000 to be bid under full and open competition. The resulting contract is linked to any resulting purchase orders so that purchases made against the contract can be tracked and the award amount not exceeded.

Condition: During our test of contracts, we noted that certain Dell purchase orders were created after the applicable contract had expired.

Cause: The PeopleSoft system is linked to the Dell website. When a requisition is entered into the system, the software checks to ensure that there are sufficient funds in the requesting department's budget, and if so, a purchase order is automatically created. This process bypasses the normal system check that will not allow a purchase order to be created if there is no contract in effect at the time.

Effect:

- Special Ed Cluster – 1 of 4 purchase orders selected was created after the corresponding contract had expired.
- Title I, Part A – 5 of 30 purchase orders selected were created after the corresponding contract had expired.

Recommendation: We recommend that the District properly configure the Procurement Direct Connect system to ensure that all purchases are acquired under active contracts as required.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-74 Suspension and Debarment – Verification of Vendors (Repeat)

Finding type: Material weakness in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Title II, Part A (CFDA# 84.367)
21st Century (CFDA# 84.287) Reading First (CFDA# 84.357)
Career & Technical Education (CFDA# 84.048) Head Start (CFDA# 93.600)
Special Education Cluster (CFDA# 84.027 & 84.173)
Tech Prep (CFDA#84.243A)

Criteria: Non-Federal entities are prohibited from contracting with or making sub awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000.

Condition: The District's policies and procedures do not require verification that vendors with contracts under \$100,000 are not suspended or debarred.

Cause: The procedures in place at the District were not updated to reflect the reduced threshold of \$25,000, established by the A-102 Common Rule, which was revised in 2003.

Effect:

- Title I, Part A – 7 of 30 contracts tested did not document verification
- Special Ed Cluster – 2 of 3 contracts tested did not document verification
- 21st Century – 2 of 12 contracts tested did not document verification
- Career & Tech – 1 of 2 contracts tested did not document verification
- Reading First – 12 of 12 contracts tested did not document verification
- Head Start – 1 of 1 contract tested did not document verification
- Tech Prep – 1 of 1 contract tested did not document verification

Recommendation: We recommend that the District modify its procedures to verify that potential vendors contracting for amounts greater than \$25,000 are neither suspended nor debarred.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-75 Reporting – Preparation of Schedule of Expenditures of Federal Awards

Finding type: Significant deficiency in internal controls over compliance

Federal program(s): SEFA Reporting

Criteria: OMB Circular A-133 and the Michigan School Auditing Manual require federal expenditures to be reported by pass-through agency, CFDA number, and project number. OMB Circular A-133 requires funds transferred to another CFDA number, as allowed by the *transferability* provision under the ESEA grants, to be reported on the Schedule of Expenditures of Federal Awards (SEFA) under the federal program that received the transferred funds.

Condition: The District initially classified \$2.3 million of federal expenditures under the Title II Part A grant that was actually transferred to Title V.

Cause: This was the first year that the transferability provision was utilized by the District, and management was not aware of the specific reporting requirements as they applied to the SEFA.

Effect: Federal expenditures reported under Title II Part A on the SEFA were overstated by \$2.3 million while expenditures reported under Title V were understated by the same amount.

Recommendation: We recommend that the District implement a system to identify funds transferred between federal programs to allow for accurate reporting on the SEFA.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-76 Reporting – Submission of Final Reports (DS-4044) (Repeat) and Submission of Final Cost Control Statement

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Title II, Part A (CFDA# 84.367)
Head Start (CFDA #93.600)

Criteria: The Michigan School Auditing Manual indicates that final expenditure reports (DS-4044) for Title I and Title II are due by November 30 following the end of the grant year. The Grant Award Notification from the Michigan Department of Education indicated that November 29, 2007 was the due date for the final expenditure reports for the 2006/07 grant year.

Per Section II, item #34 of the Head Start contract, the District is to provide the grantor with a final Cost Control Statement within thirty (30) calendar days following the close of the program year.

Condition: Upon review of the final expenditure reports for Title I and Title II, it was determined that they were not submitted until January 2008.

The District's final Cost Control Statement for Head Start for program year 2006/07 was due November 30, 2007, and was not filed with the grantor until after January 28, 2008.

Cause: The District did not have a system of controls in place to ensure that the required review and approval processes were completed in time to submit the final reports in a timely manner.

Effect: The final reports were submitted after the required deadline.

Recommendation: We recommend that the District initiate preparation, review and approval processes for the final reports early enough to allow for timely submission of the reports.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-77 Reporting – Expenditures Reported in the Wrong Period

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): 21st Century (CFDA# 84.287)

Questioned cost: \$716,376

Criteria: Amounts reported as federal award expenditures must be incurred or obligated within the appropriate grant period.

Condition: Amounts reported as federal award expenditures for the grant period ended June 30, 2007 included \$716,376 of payroll related expenditures that were incurred after the end of the grant period.

Cause: Lack of adequate internal controls over grant reporting at year end. Untimely or no recording of accruals and obligations.

Effect: The District reported federal award expenditures that were not incurred in the grant period, resulting in material noncompliance and questioned costs.

Recommendation: The District should modify existing control procedures to ensure that amounts reported as federal award expenditures are incurred within the appropriate grant period.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-78

Reporting – No Reconciliation of Report to the Underlying Records

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Reading First (CFDA# 84.357)

Questioned cost: \$625,877

Criteria: OMB Circular A-133 Compliance Supplement requires that financial reports must be accurate and complete and must reconcile to the accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards.

Condition: The final amount of federal award expenditures that was reported by the District for the program year ended July 31, 2007 (\$7,501,907) exceeded the amount of expenditures that was accounted for in the accounting records (\$6,876,030).

Cause: Accounting errors and inadequate design of internal controls did not detect discrepancies in required reports.

Effect: The amount reported as program expenditures for the 2007 grant year exceeded the accounting records that support the audited financial statements by \$625,877.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-79 Reporting – In-Kind Contributions

Finding type: Material weakness in internal controls over compliance

Federal program(s): Head Start (CFDA# 93.600)

Criteria: Amounts reported as in-kind contributions should be calculated based on reasonable criteria.

Condition: For each student enrolled in the program, the District reports 15 minutes as in-kind contributed hours each time a parent signs-in his/her child for school and another 15 minutes every time a parent signs-out his/her child for school, regardless of the actual amount of time the parent spends volunteering time to the program.

Cause: The District’s control procedures related to this requirement were not sufficient to prevent noncompliance with the contract provision.

Effect: For the program year ended October 31, 2007, the District reported \$1,558,903 of total in-kind contributions. Of the amount reported, approximately \$415,000 represented “volunteer hours” that were taken from the student sign in/out sheets.

Recommendation: The District should develop and implement control procedures to ensure that only actual volunteer hours are reported as in-kind matching contributions and that the amount reported does not include time for parent pick-up and drop-off activities.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-80

Special Test and Provisions – Schools Identified for Improvement

Finding type:	Significant deficiency in internal controls over compliance
Federal program(s):	Title I, Part A (CFDA# 84.010)
Criteria:	The Michigan School Auditing Manual indicates that any schools which were identified for improvement during the preceding two years must spend 10% of their Title I, Part A funds in professional development related to the reason the school did not make Adequate Yearly Progress.
Condition:	During the year, certain Title I, Part A eligible schools which were identified for improvement did not spend 10% of their funding on professional development, as required.
Cause:	The District's internal control process requires that the budget provide for 10% of the funds to be used for professional development, but there is no control in place to ensure that 10% of the actual expenditures are related to professional development as required.
Effect:	Of the 10 schools selected during our test, 5 schools did not spend 10% of their Title I, Part A funds for professional development.
Recommendation:	We recommend that the District implement policies and procedures sufficient to ensure that 10% of the actual Title I, Part A expenditures are spent on professional development, as required.
View of Responsible Official:	Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-81 Special Tests and Provisions – School-wide Programs (Repeat)

Finding type: Material noncompliance; Material weakness in internal controls over compliance

Federal program(s): Title I, Part A (CFDA# 84.010) Title II, Part A (CFDA# 84.367)
21st Century (CFDA# 84.287)
Career & Technical Education (CFDA# 84.048)
Special Education Cluster (CFDA# 84.027 & 84.173)

Criteria: Per OMB Circular A-133, a school-wide plan is required for each school-wide program. The School-wide plans are required to have five components: a (1) school-wide reform strategies, (2) instruction by highly qualified professional staff, (3) strategies to increase parental involvement, (4) additional support to students experiencing difficulty, and (5) transition plans for assisting preschool children in the successful transition to the school-wide program.

Condition: Of the 18 school-wide programs selected for testing, two of the programs did not have a plan that included all five required components.

Cause: The District has in place a system of review for all school-wide plans. However, there was not adequate follow-up after the review to ensure that deficiencies noted were corrected timely.

Effect: Two (2) of the 18 school wide programs selected for testing operated school-wide programs for the entire year without having school-wide plans with the required components.

Recommendation: We recommend that the District implement a policy to perform adequate follow-up on school-wide plan reviews to ensure that necessary changes are being made timely.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-82 Special Tests and Provisions – Enrollment of Children with Disabilities (Repeat)

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Head Start (CFDA# 93.600)

Criteria: Section 15 of Appendix A of the Head Start contract specifies that the District will have attained 10% enrollment of children with disabilities within 90 days of the beginning of classes.

Condition: The District did not attain 10% enrollment of children with disabilities within 90 days of the beginning of classes.

Cause: The District's control procedures related to this requirement were not sufficient to prevent noncompliance with the contract provision.

Effect: The District was not in compliance this contract provision.

Recommendation: The District should implement changes to existing control procedures to ensure that 10% enrollment of children with disabilities is attained within 90 days of the beginning of classes.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Continued)

2008-83

Special Tests and Provisions – Individual Education Plan (Repeat)

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Head Start (CFDA# 93.600)

Criteria: Section 21 of Appendix A of the Head Start contract specifies that the District will provide an Individual Education Plan (IEP) for each child professionally diagnosed with disabilities.

Condition: Examination of the District's internally maintained documentation of IEPs on file indicates that the District did not comply with this contract provision.

Cause: The District's control procedures related to this requirement were not sufficient to prevent noncompliance with the contract provision.

Effect: The District did not have a copy of the IEP for 30 of the 60 children that were professionally diagnosed with disabilities.

Recommendation: The District should implement changes to existing control procedures to ensure that IEPs are developed and utilized for each child that is professionally diagnosed with disabilities.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2008

SECTION III – Findings and Questioned Costs Related to Federal Awards (Concluded)

2008-84 Special Tests and Provisions – Physical Examination and TB Testing (Repeat)

Finding type: Noncompliance; Significant deficiency in internal controls over compliance

Federal program(s): Head Start (CFDA# 93.600)

Criteria: Section II, item #7 of the Head Start contract indicates that the District is required to maintain documentation of annual physical exams and TB test results for all employees that work for the federal program.

Condition: We selected a sample of 15 personnel files. All of the personnel files tested contained documentation of physical examinations and TB test results; however, for nine (9) of the files tested, the documentation was dated after the end of the fiscal year.

Cause: The District implemented control procedures too late in the fiscal year to ensure compliance with this requirement before June 30, 2008.

Effect: The District was not in compliance with this contract provision until after June 30, 2008.

Recommendation: We recommend that the District implement procedures to ensure that all required employees receive annual physical exams and TB tests.

View of Responsible Official: Management agrees with the finding. All necessary corrective actions will be identified, implemented, and monitored in accordance with applicable policies and procedures.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings

For the Year Ended June 30, 2008

2007-01 Preparation of Financial Statements

This finding was not adequately resolved. See finding 2008-01 in the current year Schedule of Findings and Questioned Costs.

2007-02 Wire Transfer Authorizations

This was adequately resolved.

2007-03 Fraud Risk Management

This finding was not adequately resolved. See finding 2008-03 in the current year Schedule of Findings and Questioned Costs

2007-04 Establishing Internal Audit

This finding was not adequately resolved. See finding 2008-02 in the current year Schedule of Findings and Questioned Costs.

2007-05 Accounts Payable Cutoff

This finding was not adequately resolved. See finding 2008-08 in the current year Schedule of Findings and Questioned Costs.

2007-06 Capital Asset Impairments Assessment

This was adequately resolved.

2007-07 Bond Series V Retention

This was adequately resolved.

2007-08 Accounting for Contingencies – Legal Case Reserve

This finding was not adequately resolved. See finding 2008-29 in the current year Schedule of Findings and Questioned Costs.

2007-09 Workers' Compensation Accrual

This was adequately resolved.

2007-10 Procurement – Receiving

This finding was not adequately resolved. See finding 2008-35 in the current year Schedule of Findings and Questioned Costs

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2008

2007-11 Accounts Payable Subledger Reconciliation

This finding was not adequately resolved. See finding 2008-06 in the current year Schedule of Findings and Questioned Costs.

2007-12 Transaction Coding

This finding was not adequately resolved. See finding 2008-36 in the current year Schedule of Findings and Questioned Costs.

2007-13 Prepaid Expenditures

This was adequately resolved.

2007-14 Payroll and Human Resources – Vacation Accruals and Payouts

This finding was not adequately resolved. See finding 2008-27 in the current year Schedule of Findings and Questioned Costs.

2007-15 Accounting Policies – Reimbursements

This was adequately resolved.

2007-16 Accounting Policies – Vendor Rebates

This finding was not adequately resolved. See finding 2008-32 in the current year Schedule of Findings and Questioned Costs.

2007-17 Revenue Recognition – Payroll Bank Account Reconciliation

This was adequately resolved.

2007-18 SEFA Preparation and Reconciliation

This was adequately resolved.

2007-19 Capital Assets – Use of Service Organizations

This finding was not adequately resolved. See finding 2008-20 in the current year Schedule of Findings and Questioned Costs.

2007-20 Capital Assets – Construction-In-Progress Accounting

This was adequately resolved.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2008

2007-21 Sale and Lease Contracts – Retention of Executed Copies

This was adequately resolved.

2007-22 Cash Receipts – Segregation of Duties

This was adequately resolved.

2007-23 Bank Reconciliations – Segregation of Duties

This was adequately resolved.

2007-24 Bank Reconciliations – Timeliness

This was adequately resolved.

2007-25 Payroll Account Bank Reconciliation -Stale Items

This was adequately resolved.

2007-26 Accounts Payable Bank Reconciliation – Unexplained Variances

This was adequately resolved.

2007-27 Individual Schools Bank Reconciliations – Nonperformance

This finding was not adequately resolved. See finding 2008-04 in the current year Schedule of Findings and Questioned Costs.

2007-28 Investment Management – Reporting

This finding was not adequately resolved. See finding 2008-17 in the current year Schedule of Findings and Questioned Costs.

2007-29 Journal Entry Documentation Retention

This was adequately resolved.

2007-30 Journal Entries – Authorization

This was adequately resolved.

2007-31 Recording and Reconciling Payroll Deductions

This was adequately resolved.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2008

2007-32 Overriding Procurement Controls

This finding was not adequately resolved. See finding 2008-34 in the current year Schedule of Findings and Questioned Costs.

2007-33 IT General Controls – Program Change Testing

This finding was not adequately resolved. See finding 2008-50 in the current year Schedule of Findings and Questioned Costs.

2007-34 IT General Controls – Program Change – Systems Configuration

This was adequately resolved.

2007-35 IT General Controls – Program Change – Access to Libraries

This finding was not adequately resolved. See finding 2008-37 in the current year Schedule of Findings and Questioned Costs.

2007-36 IT General Controls – Physical Access to Servers

This was adequately resolved.

2007-37 IT General Controls – Physical Access to Data Center

This finding was not adequately resolved. See finding 2008-38 in the current year Schedule of Findings and Questioned Costs.

2007-38 IT General Controls – Logging Critical System Activity

This was adequately resolved.

2007-39 IT General Controls – Inadequate Security Settings

This finding was not adequately resolved. See finding 2008-43 in the current year Schedule of Findings and Questioned Costs.

2007-40 IT General Controls – Inappropriate Contractor Access to Systems

This finding was not adequately resolved. See finding 2008-39 in the current year Schedule of Findings and Questioned Costs.

2007-41 IT General Controls – Direct Update Access to PeopleSoft

This finding was not adequately resolved. See finding 2008-40 in the current year Schedule of Findings and Questioned Costs.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2008

2007-42 IT General Controls – Domain Administration Access

This finding was not adequately resolved. See finding 2008-41 in the current year Schedule of Findings and Questioned Costs.

2007-43 IT General Controls – Access Review – Segregation of Duties

This finding was not adequately resolved. See finding 2008-42 in the current year Schedule of Findings and Questioned Costs.

2007-44 IT General Controls – Production Job Errors Tracking

This was adequately resolved.

2007-45 Durant Fund Expenditures

This finding was not adequately resolved. See finding 2008-51 in the current year Schedule of Findings and Questioned Costs.

2007-46 Procurement Bidding Process

This was adequately resolved.

2007-47 Special Tests and Provisions – Verification of Free & Reduced Price Applications

Child Nutrition Cluster (CFDA# 10.553 & 10.555)

This was adequately resolved.

2007-48 Cash Management – Advance Interval

Reading First (CFDA# 84.357)

This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.

2007-49 Cash Management – Supervisor Review

Reading First (CFDA# 84.357)

This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.

2007-50 Cash Management – Excess Drawdown Amounts

Reading First (CFDA# 84.357)

This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2008

2007-51 Procurement – Approvals
Reading First (CFDA# 84.357)

This was adequately resolved.

2007-52 Procurement – Suspension and Debarment
Reading First (CFDA# 84.357)

This finding was not adequately resolved. See finding 2008-74 in the current year Schedule of Findings and Questioned Costs.

2007-53 Procurement – Open Competition
Reading First (CFDA# 84.357)

This finding was not adequately resolved. See finding 2008-72 in the current year Schedule of Findings and Questioned Costs.

2007-54 Allowable Costs/Cost Principles – Fringe Benefits
Reading First (CFDA# 84.357)

This finding was not adequately resolved. See finding 2008-54 in the current year Schedule of Findings and Questioned Costs.

2007-55 Allowable Costs/Cost Principles – Fringe Benefits
Title I, Part A (CFDA# 84.010)

This finding was not adequately resolved. See finding 2008-54 in the current year Schedule of Findings and Questioned Costs.

2007-56 Allowable Costs/Cost Principles – Payroll Certifications
Title I, Part A (CFDA# 84.010)

This finding was not adequately resolved. See finding 2008-58 in the current year Schedule of Findings and Questioned Costs.

2007-57 Cash Management – Advance Interval
Title I, Part A (CFDA# 84.010)

This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.

2007-58 Cash Management – Supervisory Review
Title I, Part A (CFDA# 84.010)

This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2008

2007-59 Cash Management – Excess Draw Amounts

Title I, Part A (CFDA# 84.010)

This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.

2007-60 Equipment and Real Property Management – Identification

Title I, Part A (CFDA# 84.010)

This finding was not adequately resolved. See finding 2008-65 in the current year Schedule of Findings and Questioned Costs.

2007-61 Equipment and Real Property Management – Physical Count

Title I, Part A (CFDA# 84.010)

This finding was not adequately resolved. See finding 2008-65 in the current year Schedule of Findings and Questioned Costs.

2007-62 Period of Availability

Title I, Part A (CFDA# 84.010)

This finding was not adequately resolved. See finding 2008-69 in the current year Schedule of Findings and Questioned Costs.

2007-63 Procurement and Suspension and Debarment

Title I, Part A (CFDA# 84.010)

This finding was not adequately resolved. See finding 2008-74 in the current year Schedule of Findings and Questioned Costs.

2007-64 Procurement and Suspension and Debarment – Open Competition

Title I, Part A (CFDA# 84.010)

This finding was not adequately resolved. See finding 2008-72 in the current year Schedule of Findings and Questioned Costs.

2007-65 Reporting

Title I, Part A (CFDA# 84.010)

This finding was not adequately resolved. See finding 2008-76 in the current year Schedule of Findings and Questioned Costs.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2008

- 2007-66 Special Tests and Provisions – School-wide Plans**
Title I, Part A (CFDA# 84.010)
- This finding was not adequately resolved. See finding 2008-81 in the current year Schedule of Findings and Questioned Costs.
- 2007-67 Special Tests and Provisions – Comparability**
Title I, Part A (CFDA# 84.010)
- This was adequately resolved.
- 2007-68 Allowable Costs/Cost Principles – Fringe Benefits**
Head Start (CFDA# 93.600)
- This finding was not adequately resolved. See finding 2008-54 in the current year Schedule of Findings and Questioned Costs.
- 2007-69 Allowable Costs/Cost Principles – Requisition**
Head Start (CFDA# 93.600)
- This finding was not adequately resolved. See finding 2008-61 in the current year Schedule of Findings and Questioned Costs.
- 2007-70 Allowable Costs/Cost Principles – Expenditures**
Head Start (CFDA# 93.600)
- This was adequately resolved.
- 2007-71 Matching, Level of Effort, and Earmarking**
Head Start (CFDA# 93.600)
- This was adequately resolved.
- 2007-72 Procurement and Suspension and Debarment**
Head Start (CFDA# 93.600)
- This finding was not adequately resolved. See finding 2008-74 in the current year Schedule of Findings and Questioned Costs.
- 2007-73 Special Tests and Provisions – Parental Involvement**
Head Start (CFDA# 93.600)
- This was adequately resolved.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2008

2007-74 Special Tests and Provisions – Social Services

Head Start (CFDA# 93.600)

This was adequately resolved.

2007-75 Special Tests and Provisions – Social Services

Head Start (CFDA# 93.600)

This finding was not adequately resolved. See finding 2008-83 in the current year Schedule of Findings and Questioned Costs.

2007-76 Special Tests and Provisions – Social Services

Head Start (CFDA# 93.600)

This was adequately resolved.

2007-77 Special Tests and Provisions – Disability Services

Head Start (CFDA# 93.600)

This finding was not adequately resolved. See finding 2008-82 in the current year Schedule of Findings and Questioned Costs.

2007-78 Special Tests and Provisions – Education

Head Start (CFDA# 93.600)

This was adequately resolved.

2007-79 Special Tests and Provisions – Personnel Files

Head Start (CFDA# 93.600)

This finding was not adequately resolved. See finding 2008-84 in the current year Schedule of Findings and Questioned Costs.

2007-80 Allowable Costs/Cost Principles – Fringe Benefits

21st Century (CFDA# 84.287)

This finding was not adequately resolved. See finding 2008-54 in the current year Schedule of Findings and Questioned Costs.

2007-81 Allowable Costs/Cost Principles – Payroll Certifications

21st Century (CFDA# 84.287)

This finding was not adequately resolved. See finding 2008-58 in the current year Schedule of Findings and Questioned Costs.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2008

- 2007-82 Allowable Costs/Cost Principles**
21st Century (CFDA# 84.287)
- This was adequately resolved.
- 2007-83 Cash Management – Advance Interval**
21st Century (CFDA# 84.287)
- This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.
- 2007-84 Cash Management – Supervisory Review**
21st Century (CFDA# 84.287)
- This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.
- 2007-85 Cash Management – Excess Draws**
21st Century (CFDA# 84.287)
- This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.
- 2007-86 Period of Availability**
21st Century (CFDA# 84.287)
- This finding was not adequately resolved. See finding 2008-69 in the current year Schedule of Findings and Questioned Costs.
- 2007-87 Procurement**
21st Century (CFDA# 84.287)
- This was adequately resolved.
- 2007-88 Procurement and Suspension and Debarment**
21st Century (CFDA# 84.287)
- This finding was not adequately resolved. See finding 2008-74 in the current year Schedule of Findings and Questioned Costs.
- 2007-89 Procurement – Open Competition**
21st Century (CFDA# 84.287)
- This was adequately resolved.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2008

- 2007-90 Special Tests and Provisions – School-wide Plans**
21st Century (CFDA# 84.287)
- This finding was not adequately resolved. See finding 2008-81 in the current year Schedule of Findings and Questioned Costs.
- 2007-91 Allowable Costs/Cost Principles – Fringe Benefits**
Title II, Part A (CFDA# 84.367)
- This finding was not adequately resolved. See finding 2008-54 in the current year Schedule of Findings and Questioned Costs.
- 2007-92 Allowable Costs/Cost Principles – Missing Invoice**
Title II, Part A (CFDA# 84.367)
- This was adequately resolved.
- 2007-93 Cash Management – Advance Interval**
Title II, Part A (CFDA# 84.367)
- This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.
- 2007-94 Cash Management – Supervisory Review**
Title II, Part A (CFDA# 84.367)
- This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.
- 2007-95 Cash Management – Excess Draws**
Title II, Part A (CFDA# 84.367)
- This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.
- 2007-96 Period of Availability**
Title II, Part A (CFDA# 84.367)
- This was adequately resolved.
- 2007-97 Procurement**
Title II, Part A (CFDA# 84.367)
- This finding was not adequately resolved. See finding 2008-71 in the current year Schedule of Findings and Questioned Costs.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2008

- 2007-98 Procurement and Suspension and Debarment**
Title II, Part A (CFDA# 84.367)
- This finding was not adequately resolved. See finding 2008-74 in the current year Schedule of Findings and Questioned Costs.
- 2007-99 Procurement – Open Competition**
Title II, Part A (CFDA# 84.367)
- This was adequately resolved.
- 2007-100 Procurement – Approvals**
Title II, Part A (CFDA# 84.367)
- This finding was not adequately resolved. See finding 2008-71 in the current year Schedule of Findings and Questioned Costs.
- 2007-101 Special Tests and Provisions – School-wide Programs**
Title II, Part A (CFDA# 84.367)
- This finding was not adequately resolved. See finding 2008-81 in the current year Schedule of Findings and Questioned Costs.
- 2007-102 Allowable Costs/Cost Principles – Payroll Certifications**
Title II, Part A (CFDA# 84.367)
- This finding was not adequately resolved. See finding 2008-58 in the current year Schedule of Findings and Questioned Costs.
- 2007-103 Allowable Costs/Cost Principles – Payroll Certifications**
Special Education Cluster (CFDA# 84.027 & 84.173)
- This finding was not adequately resolved. See finding 2008-58 in the current year Schedule of Findings and Questioned Costs.
- 2007-104 Allowable Costs/Cost Principles – Fringe Benefits**
Special Education Cluster (CFDA# 84.027 & 84.173)
- This finding was not adequately resolved. See finding 2008-54 in the current year Schedule of Findings and Questioned Costs.
- 2007-105 Cash Management – Advance Interval**
Special Education Cluster (CFDA# 84.027 & 84.173)
- This was adequately resolved.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Continued)

For the Year Ended June 30, 2008

- 2007-106 Cash Management – Supervisory Review**
Special Education Cluster (CFDA# 84.027 & 84.173)
- This was adequately resolved.
- 2007-107 Cash Management – Excess Drawdowns**
Special Education Cluster (CFDA# 84.027 & 84.173)
- This was adequately resolved.
- 2007-108 Procurement and Suspension and Debarment**
Special Education Cluster (CFDA# 84.027 & 84.173)
- This finding was not adequately resolved. See finding 2008-74 in the current year Schedule of Findings and Questioned Costs.
- 2007-109 Procurement – Open Competition**
Special Education Cluster (CFDA# 84.027 & 84.173)
- This finding was not adequately resolved. See finding 2008-72 in the current year Schedule of Findings and Questioned Costs.
- 2007-110 Special Tests and Provisions – School-wide Programs**
Special Education Cluster (CFDA# 84.027 & 84.173)
- This finding was not adequately resolved. See finding 2008-81 in the current year Schedule of Findings and Questioned Costs.
- 2007-111 Allowable Costs/Cost Principles – Fringe Benefits**
Career & Technical Education (CFDA# 84.048)
- This finding was not adequately resolved. See finding 2008-54 in the current year Schedule of Findings and Questioned Costs.
- 2007-112 Allowable Costs/Cost Principles – Payroll Certifications**
Career & Technical Education (CFDA# 84.048)
- This finding was not adequately resolved. See finding 2008-58 in the current year Schedule of Findings and Questioned Costs.
- 2007-113 Cash Management – Advance Interval**
Career & Technical Education (CFDA# 84.048)
- This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.

DETROIT PUBLIC SCHOOLS

Schedule of Prior Year Findings (Concluded)

For the Year Ended June 30, 2008

2007-114 Cash Management – Supervisory Review

Career & Technical Education (CFDA# 84.048)

This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.

2007-115 Cash Management – Excess Drawdowns

Career & Technical Education (CFDA# 84.048)

This finding was not adequately resolved. See finding 2008-62 in the current year Schedule of Findings and Questioned Costs.

2007-116 Equipment and Real Property Management – Identification

Career & Technical Education (CFDA# 84.048)

This finding was not adequately resolved. See finding 2008-65 in the current year Schedule of Findings and Questioned Costs.

2007-117 Equipment and Real Property Management – Physical Count

Career & Technical Education (CFDA# 84.048)

This finding was not adequately resolved. See finding 2008-65 in the current year Schedule of Findings and Questioned Costs.

2007-118 Procurement Approvals

Career & Technical Education (CFDA# 84.048)

This was adequately resolved.

2007-119 Procurement and Suspension and Debarment

Career & Technical Education (CFDA# 84.048)

This finding was not adequately resolved. See finding 2008-74 in the current year Schedule of Findings and Questioned Costs.

2007-120 Special Tests and Provisions – School-wide Programs

Career & Technical Education (CFDA# 84.048)

This finding was not adequately resolved. See finding 2008-81 in the current year Schedule of Findings and Questioned Costs.

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